60TH CONGRESS, 1st Session. } HOUSE OF REPRESENTATIVES. { REPORT No. 1126.

H. R. 12677

REPORT OF THE COMMITTEE ON BANKING AND CURRENCY

ON A BILL

TO ESTABLISH A SIMPLE AND SCIENTIFIC MONETARY SYSTEM, FOUNDED UPON GOLD, GUARANTEED BANK NOTES, AND SILVER, WITH UNIFORM BANKING AND BANK RESERVES IN GOLD COIN OR ITS EQUIVALENT; TO GUARANTEE ALL DEPOSITS AND NOTE ISSUES, AND TO FIX CERTAIN RULES AND REGULATIONS WHEREBY THE FINANCIAL OPERATIONS OF THE GOVERNMENT SHALL CEASE TO BE A DISTURBING FACTOR IN OUR TRADE AND COMMERCE.

FEBRUARY 29, 1908.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

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TABLE OF CONTENTS.

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JANUARY 8, 1908.—Referred to the Committee on Banking and Currency and ordered to be printed.

[Omit the part struck through and insert the part printed in italics.]

FEBRUARY 28, 1908.

Mr. FOWLER, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 12677.]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 12677) to establish a simple and scientific monetary system, founded upon gold, guaranteed bank notes, and silver, with uniform banking and bank reserves in gold coin or its equivalent; to guarantee all deposits and note issues; and to fix certain rules and regulations whereby the financial operations of the Government shall cease to be a disturbing factor in our trade and commerce, begs leave to submit the following report, and recommend that said bill do pass, with certain amendments, as will appear in the copy of the bill, which is a part of the report.

Your committee is of the opinion that there should be no further patchwork, no temporary device, no political expedient, but that there should now be a genuine and complete reform of our financial and currency practices.

The business interests of the country and the danger to our national credit both unite in demanding that we should now adopt a scientific,

The bill, which your committee now has the honor to report to the House, is comprehensive in character, scientific in principle, practical in its application, and will accomplish the following results:

First. It will unify the banking interests of the United States, coordinating and bringing them into perfect harmony.

Second. It will secure a uniform and adequate reserve in gold coin, to prove all bank credits and thereby protect the interests of all depositors.

Third. It will establish a scientific and simple monetary system, with all of our bank reserves in gold coin, with bank credits redeemable in gold coin for all of our larger bills, and with silver for our smaller bills and subsidiary coin.

Fourth. It will give us a true credit currency system, by which our current credits will always increase and decrease in strict accordance with the demands of business, never too great, never too small, but invariably adjusted to the requirements of trade and commerce.

Fifth. It will give to our laborers, farmers, producers, manufacturers, and merchants, and to all others who have bank accounts, the right to have their credits in that form which will best serve their needs, viz, either a credit upon the books of the bank subject to check, a draft upon another locality with which to buy goods or pay debts, or a cashier's check, payable to bearer, the current credit of the bank or a bank note, which will be printed and furnished by the Government precisely as bank notes now are.

Sixth. It will give to the masses of our people, those who use currency instead of checks, just as economical and cheap credits as the rich and powerful have who keep bank accounts subject to check.

Seventh. It will give us a currency based upon the products of labor, the consumable commodities of the country, the things we eat, we wear and use, and that currency redeemed in gold coin.

Eighth. It will enable the farmer, producer, manufacturer, and merchant to coin their commodities into currency which the banks will be compelled to redeem in gold coin.

Ninth. It will establish in the United States Treasury a fund approximating $700,000,000 to guarantee the redemption of these notes in gold coin and protect all depositors of national banks, thereby preventing panics and stopping the hoarding of money.

Tenth. It will completely divorce the operations of the United States Treasury from the trade and commerce of the country, and thereby prevent their continuance as a disturbing factor in the business of the country.

THE EFFECT OF THE BILL.

It will displace all of our bond-secured currency, which bears no relation to the business of the country, with a true credit currency, which comes into existence with production and disappears with consumption. Therefore we shall always have just enough currency to meet our trade requirements.

NATIONAL HONOR.

It will retire the demand obligations of the Government and completely free us from the dangers and perils of national repudiation and dishonor.

GOLD STANDARD.

cial credits upon a gold foundation.

ERNMENT BUSINESS.

ıment in a normal and safe position; that
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Chicago and Illinois and all cities, States,

:DIT CURRENCY DESCRIBED AND DEFINED.

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well known and current for bank credit in
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t all of its depositors.

ANALYSIS.

l States is divided into twenty commercial
tion agency in each zone. All the banks
ny one agency elect a board of managers
:, consisting of nine members, who have
ıation and supervision of the banks in that

The chairman of each board of managers is a deputy comptroller of the currency. These boards of managers meet at least once every month.

The deputy comptrollers of the twenty commercial zones meet at least every six months with the Comptroller of the Currency acting as chairman, for the purpose of consulting and advising each other.

It will be observed that the structure of this organization is based upon that of our State and Federal Government.

ADDITIONAL POWERS.

National banks are authorized—

First. To take our bank notes for issue and circulation without depositing Government bonds.

Second. To guarantee depositors.

Third. To act as executor, administrator, guardian, and trustee.

Fourth. To examine and supervise their banks through their own examiners.

NOTE FUNDING.

In place of the present outstanding Government bond-secured notes the banks will have the right to take out for issue and circulation bank notes equal to the capital of the bank, the same being protected by gold reserves in amount as now provided by law for deposits, and their payment will be guaranteed by a deposit in the United States Treasury of a fund approximating $700,000,000.

If at any time the business interests of the country should require it in any locality, subject to the approval of the board of managers of the respective districts, any bank may take out an additional amount of notes equal to its capital.

GUARANTY FUND.

At the time of taking out bank notes for issue and circulation a bank shall deposit in the Treasury of the United States an amount of gold coin or its equivalent equal to 5 per cent of its average deposits for the preceding six months; and also 5 per cent of the bank notes it takes out. The amount so deposited is a part of the required reserves of the banks.

It is assumed that the total deposits will be at least $13,000,000,000, and that the total note issue will be at least $1,000,000,000, making in all $14,000,000,000, 5 per cent of which is $700,000,000.

INTEREST ON GOVERNMENT DEPOSITS.

As soon as the amount in the guaranty fund, arising from the deposits therein of 5 per cent of the note issues and 5 per cent of the deposits, shall reach the sum of $25,000,000, all bonds now held by the Government to secure its deposits with national banks shall be returned to the respective banks owning them, and the banks shall thereupon begin to pay the Government on its deposits interest thereon at the rate of 2 per cent per annum, the same being payable semiannually.

All Government deposits shall be equitably distributed throughout the United States; and no deposit with any national bank shall exceed fifty per cent of its capital.

CURRENT DEPOSIT OF GOVERNMENT REVENUES.

The Government shall receive in payment for its dues national bank notes or the checks or drafts of national banks, and shall pay all its own obligations by check or draft on national banks. It shall deposit from day to day all of its receipts in national banks precisely as any business house does.

NOTE REDEMPTION.

All expense attaching to the transmission of any bank note by the holder thereof to a redemption agency is paid by the Government.

RATES OF INTEREST ON COMMERCIAL AND TRUST ACCOUNTS.

No bank is allowed to pay more than 2 per cent on any account subject to check. The rates of interest to be allowed in the several redemption districts upon time certificates shall be determined by the managers of the respective districts.

CONVERSION OF UNITED STATES NOTES.

As soon as the amount of the accumulations in the guaranty fund from income reaches the sum of $25,000,000, the balance remaining on the 1st days of January and July of each year, after paying all expenses, shall be used to convert the United States notes into gold certificates. The result will be that the United States notes, amounting to $200,000,000, will be paid out of the taxes upon circulation and interest upon Government deposits held by the banks.

It is the confident belief of the committee that by the enactment of this measure all the fundamental defects or weaknesses in our financial and currency practices will be eliminated and that we shall have, all things considered, the very best banking system in the world instead of the very worst. To delay this important work any longer means still greater and continued commercial disaster; and in case of a great war, a complete breakdown of our national credit with all the ruinous consequences that follow in its train.

SPEECH OF HON. CHARLES N. FOWLER ON THE FOWLER FINANCIAL AND CURRENCY BILL (H. R. 12677) BEFORE THE HOUSE OF REPRESENTATIVES JANUARY 27, 1908.

SPEECH OF HON. CHARLES N. FOWLER.

The House being in Committee of the Whole House on the state of the Union, and having under consideration the bill (H. R. 10446) to provide for temporary street railway connection with the Union Railroad Station in the District of Columbia—

Mr. FOWLER said:

Mr. CHAIRMAN: I send to the Clerk's desk a clipping taken from the Washington Post this morning, which I desire to have read.

The Clerk read as follows:

An interesting story was told last week bearing upon the probable action of certain leaders in the House with respect to this bill. There need be no fear, it is said, that Chairman Fowler and his committee will not report the Aldrich bill promptly to the House, and that this measure will go through the orderly course of committee procedure without recourse to the device of sending it to the Ways and Means Committee or considering it without sending it to any committee whatever.

It was said that Speaker Cannon was so firmly convinced of the necessity of speedily passing a measure containing the vital principles of the Aldrich bill that he thought seriously of deposing Mr. Fowler from the chairmanship of the Committee on Banking and Currency. The Speaker understood Mr. Fowler's opposition to that bill and his great desire to have his own currency measure adopted by the House. Mr. Fowler, however, it is said, saw the handwriting on the wall, and gave the Speaker to understand that he would abide by the will of the majority of the House, and would report the measure when it came over from the Senate. With such an understanding the Speaker reassigned Mr. Fowler to the headship of the committee.

Mr. FOWLER. Mr. Chairman, every word, from the first to the last, of that publication is utterly and absolutely false.

When Speaker Cannon called me in and advised me of the fact that he was going to appoint the Committee on Banking and Currency, after telling me that all of the published statements to the effect that he intended to displace me were a pack of lies, the only suggestion he made at all was that he thought it would be unwise to bring any measure into the House before the holidays, on account of the sensitive condition of the public mind.

No allusion of any kind whatever was made to any bill in this House or any other. I replied to him as follows: "I agree with you; and more than that, I believe that any measure that attempts to affect the present situation or to deal with it in any way would be unwise, not only before the holidays, but useless and unwise for this entire session." And that is all that was said.

I sincerely hope and firmly believe that no Member of this House would permit the putrid purpose of securing place, however exalted, to paralyze his patriotism and destroy his devotion to his country. [Applause.] The man who betrays the principles which he truly believes will best conserve the interests of his country is as foul a

traitor as he who, in uniform, upon the field of battle, turns and shoots down his comrades defending the Stars and Stripes. Such an imputation is an insult to the Speaker and every Member of this House. I denounce it as false, and, as I believe, maliciously false.

Mr. Chairman, what I said to Speaker Cannon with regard to temporary legislation I thoroughly believe. After the panic of 1873 a panacea was offered to General Grant in the way of more greenbacks, and he vetoed it. In 1893 the panacea was offered to Grover Cleveland of more silver, and he vetoed it; and I hope that this House now, under exactly the same conditions, will be as intelligent and brave as those two men were in their day.

The importance of this question can hardly be appreciated. We are dealing with bank resources amounting now to $19,645,000,000 in this country, while the banking power of all the rest of the world amounts to, according to the same calculation, $30,500,000,000. In other words, we have in the United States two-fifths of all the banking power of all the world; and we produced last year products of various kinds valued at $25,000,000,000.

Now, everybody knows that there is something wrong, radically wrong, and those who have studied the situation know that we have the worst financial and currency practices in the world instead of the best.

What is the acute and most urgent question before the American people? What is the question that will not down until the people themselves have settled it?

What is the immediate and direct cause of the present deplorable situation? What is the cause of the most disgraceful incident in the business life of the nation?

It is a bond-secured currency which bears no relation whatever to the business of the country.

What was the origin of this bond-secured currency?

In 1863, when Secretary Chase wanted to raise money to carry on the war, he devised this scheme of basing our currency upon Government bonds; and, by imposing a 10 per cent tax upon bank-note circulation, compelled the bankers to buy the United States bonds and issue circulation based upon them. It was a bond-selling scheme in its inception, and it has never been anything else but a bond-speculating scheme.

From 1882 to 1891 this bond-secured currency, though the country was expanding and growing in every direction, fell from three hundred and sixty-two millions to one hundred and twenty-five millions, and this I say in the face of the fact that the period was one of prosperity and expansion. It contracted two hundred and twenty-five millions simply because it did not pay to hold the bonds.

From 1891 to 1900 you will find upon investigation that the bank notes often decreased from July to December, when they ought to have increased from two hundred and fifty to two hundred and seventy-five millions of dollars, simply because it paid to sell the bonds, and the bankers did what they ought to do for their stockholders as a matter of business. Again, you will find that in the same nine years from January to July, when the bank-note currency ought to have decreased from two hundred and fifty to two hundred and seventy-five millions, the circulation actually increased, because

it paid to buy the bonds, and the bankers did what was for the interest of the stockholders of their respective banks.

In other words, a bond-secured currency bears no relation to the business of the country, but increases and decreases according to the profit or loss in buying or selling the bonds.

Mr. Chairman, if the principle or practice, rather, of basing a currency upon bonds were a wise one, is it not altogether likely that some other nation would have adopted it during the past forty-five years? One country did adopt it, that enterprising country across the Pacific, Japan. But the Japanese Government adopted it only over night. They found this bond-secured currency utterly unfit for their country and discarded it and adopted credit currency. So we stand alone in all the world in having it, and we have it only by tradition and not by adoption as a principle.

The present panic, how did it come about? Every fall, beginning with July and up to the 1st of January, it has been demonstrated that the central cities of the country send into the farming districts about three hundred millions of currency. Last fall, when this demand was urgent there coincidently happened a financial difficulty in New York that precipitated a run on the banks and probably from $125,000,000 to $150,000,000 of currency was seized, so that the New York bankers not only were utterly unable to send money to the West, but were even compelled to adopt clearing-house certificates.

Therefore our whole system of currency exchange broke down from one end of the country to another in a time of prosperity, when the prices of all commodities were high, and people wanted to buy them. You could not sell a bale of cotton and transfer title; you could not sell a fat steer and transfer title, or a bushel of wheat and transfer title, because your current exchange had completely broken down.

Now, gentlemen, if you had had the kind of currency that you ought to have had, and if the banks of this country could have sent their credits into the country districts; if they could have converted their book credits subject to checks into current credits, which passed without indorsement, we never would have had the troubles of this last summer. It is a certainty that the banks in these central cities were owing the country banks more than $300,000,000. That was an absolute debt, subject to check or draft. They held their reserves against $300,000,000. Now, if they could have converted this $300,000,000, which is a debt against which they hold reserves, into a current credit, and have held the same reserve against the current credits that they held against the order credits, they could have paid off every one of these banks throughout the country and have moved the crops and no one would have ever known that the crops were being moved nor that a bank had closed its doors in New York. They would not have increased their debt one single dollar; they would not have increased their reserves one dollar; and it would have been simply a matter of bookkeeping—the president of the bank saying to the cashier, "Send out our bank notes, charge the country banker, and credit the cashier of this bank." That would have been all there was to the transaction.

With a view of impressing upon the members of the Senate and the House of Representatives the fatal mistake of pursuing this policy

any further, especially of passing the boundaries of Government obligations, I addressed the following letter to each of them:

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES UNITED STATES,
Washington, D. C., January 14, 1908.

MY DEAR SIR: While we are trying to think ourselves out of our deplorable currency condition, it seems as though we ought to take some note of the observations and conclusions of the leading economic authorities of the world and of what they are thinking and saying about us.

Paul Leroy-Beaulieu, the leading economic authority of France, has this to say in the New York Evening Post of December 31, 1907, in its annual financial review:

"It is true the American monetary system can not stand on its feet. Something of course must be done; and I hold to President Cleveland's principle that the United States must work out the separation of bank and state; but any immediate action in this matter is difficult, if only for the reason that the public funds used by the national banks could hardly be capitalized elsewhere at anything like a 2 per cent rate. In this connection I have been surprised to learn of a possible future loophole to permit the national banks to issue bills against other than Government funds. It seems to me that this would remove the very necessary limits which the possession of Government funds established; if railway or even municipal funds, for example, should possibly take their place, it might lead to dangerous inflation."

In the London Economist the following appeared:

"How and when the American coach will be pulled out of the mire in which it has been sticking for the last eight weeks is a problem that becomes more pressing every day. The present situation is a peril to financial and commercial interests all the world over. The best that can be said is that the realities are beginning to be appreciated on the other side of the Atlantic. * * * A great part of the American currency is inconvertible. The issues of bank notes in the United States are not based upon sound principles. The so-called security of bond deposits is no proper security at all. It is a device which originated in a desire to give an artificially high value to the Government's debt and enable it to borrow cheaply. The American people are saddled with an unsound currency because the American Government when it was hard up wanted to make a market for its bonds."

And also the following:

"The American public has become so hardened to the idea of bond-secured currency, with no proper relation to gold, and therefore no automatic elasticity, that we fear there is little chance of creation of a simple, sound, and uniform system of currency. If American bank notes are issued to an unlimited extent on security of railway bonds, we may have to study again the history of Law's Mississippi scheme, and of the French assignats, which were proudly described as paper money based on the firm foundation of landed property."

If the observations of these leading economic authorities are true, it must be self-evident that we are at the parting of the ways now precisely as we were in 1896; and that to adopt the principle of using bonds as the basis of our currency will be far more disastrous in the end than it would have been to adopt silver as our standard of value in 1896.

Very truly, yours, CHARLES N. FOWLER.

Mr. UNDERWOOD. Will the gentleman yield to a question?

Mr. FOWLER. I do not desire to be interrupted now to answer any question, but when I have finished I shall be very pleased to answer questions.

The next important question that we want to consider in this country is that of our bank reserves; and I want to say that there is, in my opinion, nothing that is fit for a bank reserve except gold, and that in any country, whatever the standard of value may be, the reserves should be coined out of that standard of value. [Applause on the Republican side.]

Let this be understood once for all. If it is cotton, then coin them out of cotton; if it is wheat, coin them out of wheat; if it is copper,

coin them out of copper; if it is silver, coin them out of silver; but if it is gold, coin your reserves out of gold.

Now, what is the fact about the reserves of this country?

Mr. Chairman, having called the attention of the House to the immediate cause of the panic last fall, which I believe was distinctly a currency panic, I shall now proceed to point out the fundamental defects in our financial and currency practices, which I will not dignify by calling principles or systems. I believe that certain of these defects are most serious and must inevitably, sooner or later, lead to commercial disasters compared with which the experiences of the fall of 1907 may be regarded as a pleasing recollection.

First, I desire to call the attention of the House to the appalling condition into which the reserves of the banks of the country have already come.

I tried to make an estimate of the amount of bank notes, which are nothing but mere promises to pay based upon other debts, Government bonds due twenty-five years from now, which have found their way into the banks of this country and are being held as reserves. I estimated from the information that I could get last year that there were over $200,000,000 of bank notes so held.

Last Saturday, in a conversation with the Comptroller of the Currency (Mr. Ridgely), he said to me: "Mr. Fowler, I do not believe that there are more than $150,000,000 of bank notes, of which we now have $700,000,000—I do not believe there are more than $150,000,000 of them in circulation."

This leaves $550,000,000 of bank notes in the reserves of the banks of this country, one-half of all the cash reserves now held by the banks being in mere promises to pay.

Think of it, gentlemen. Now, how does that come about? I will tell you. A gentleman recently told me that he knew of a trust company that had taken $3,000,000 of the bank notes of one single bank and locked them up so that that bank could make its 1 per cent and over on its circulation, and that another trust company had $2,000,000 of the bank notes of another bank locked up in the bottom of its reserve.

And so, all over this country, the men who have national banks go to the State banks and trust companies and place their national-bank notes in the reserves of these State banks and trust companies, until, according to Comptroller Ridgely, they have crowded five hundred and fifty million of gold out of our reserve, for remember that every dollar of bank notes in our reserves has displaced and crowded out just that amount of gold.

It may be asked why the national banks desire to lodge their notes permanently in the reserves of the State banks and trust companies. It is because they make a profit of about 1 per cent, sometimes more and sometimes less, according to the price of the bonds, and therefore desire to keep their notes out permanently.

A perfect parallel to this process may be found in the fact that from 1793 to 1834 a differential of one-half of 1 per cent in favor of silver crowded every dollar of gold out of this country.

The required reserves of our national banks average about 20 per cent. My investigation last March, the result of which I tried to give to this House, and which contained a prophecy of precisely what

would happen last fall, but which was not listened to very patiently because, as I suppose, people dislike to hear unpleasant things, disclosed the fact that the banks of this country, outside of the national banks, only held 6.35 per cent in cash. According to Mr. Ridgely's opinion, above referred to, probably a half or two-thirds of all the reserves held by the State banks and trust companies, insignificant as the amount was, was in these bank notes—mere promises to pay the debts of the banks.

I have just received the following letter from the Comptroller of the Currency and read it because it discloses the high average of the reserves required by the national banks and the very great and unfair advantage the State banks and trust companies now have over the banks under national supervision:

TREASURY DEPARTMENT,
Washington, January 25, 1908.

HON. CHAS. N. FOWLER,
House of Representatives, Washington, D. C.

SIR: In reply to your inquiry by telephone, you are respectfully informed that the percentage of reserve held by the national banks during the year 1907 was at the lowest on March 22, being 20.74 per cent, as you will note from the following:

	Reserve held.	Reserve held, including excessive credits with reserve agents.
January 26, 1907	21.53	26.87
March 22, 1907	20.74	25.45
May 20, 1907	21.22	25.79
August 22, 1907	21.33	25.56
December 3, 1907	21.31	24.72

On December 3, 1907, the net deposits subject to reserve requirements aggregated $4,906,684,057.73. A reserve was required of $978,104,566.40, equaling 19.93 per cent. * * *

Very respectfully, WM. B. RIDGELY, *Comptroller.*

Mr. Chairman, in the second place, I desire to call the attention of the House to the 346,000,000 of United States notes still outstanding, mere promises to pay, mere pieces of fiat, issued during the civil war, more than forty years ago, and under the stress of supposed necessity. They have never been paid and canceled, nor retired by funding, simply because neither the Republican party nor the Democratic party has ever had the political courage to do its duty and eliminate this ever-threatening danger.

These United States notes have remained to this day a disgrace to our economic wisdom, a monument to our political cowardice, and what is more, a serious menace to our national credit. Nay, more, they have been a constant source of unsound thought, because their existence has led many to the conclusion that our bond-secured bank notes were fit for bank reserves, on the theory that if the greenbacks were proper reserves the bank notes necessarily must be, because secured by Government obligations.

All of us remember the horror of 1895, when the credit of this nation hung over the precipice of dishonor, and when we were certainly within forty-eight hours, possibly twenty-four hours, of national repudiation, for apprehension had set the endless chain of

greenbacks to work, and our one hundred million of gold had dwindled to forty-one million of dollars.

At that critical moment Mr. Cleveland had the intelligence, the courage, and the patriotism to grasp this monster by the throat, and, against the protests of practically the entire Democratic party, appeal to that great financier, Mr. Morgan, through whose aid our national honor was maintained by controlling the exchanges until we could recoup our gold. I, for one, thank God that a man like Grover Cleveland was President of the United States that year. [Prolonged applause.]

Mr. Chairman, for the information of the House I will read a letter just received from the Treasury Department giving the actual condition of the Treasury on the 8th day of February, 1895, when the contract was signed with Mr. Morgan, and also on the 12th day of February, 1895 when our net gold in the Treasury fell to $41,340,181.11.

TREASURY DEPARTMENT,
Washington, January 25, 1908.

Hon. CHARLES N. FOWLER,
Chairman Committee on Banking and Currency,
House of Representatives.

SIR: In reply to your inquiry of this date (by phone) relative to the issue of $62,315,400 in 4 per cent bonds of the United States dated February 1, 1895, you are advised that the contract for the sale of these bonds in exchange for gold was executed February 8, 1895, and that the first deposit of gold under the terms of the contract was made at New York on February 11, 1895.

The Treasury holdings of gold on February 8, 1895, was as follows:

Gold coin	$52, 093, 118. 07	
Gold bullion	43, 288, 961. 05	
		$95, 382, 079. 12
Less gold certificates in circulation		52, 599, 019. 00
Net gold in Treasury		42, 783, 060. 12

On February 12, 1895, the net gold in the Treasury amounted to $41,340,181.11 the lowest reached since the resumption of specie payments January 1, 1879.

Respectfully,

J. F. MELINE,
Assistant Treasurer United States.

Who can tell when this slumbering danger shall again threaten the credit of the nation and shake the finances of the Government and the commerce of the United States to its very center? Do we not know that we are carrying 700,000,000 of bank notes, 600,000,000 of silver, and 346,000,000 of greenbacks on a mere pin point of gold amounting to only 150,000,000? And yet it is suggested that we may with safety add 250,000,000 more of Government guaranty of paper, 500,000,000 more of Government paper; yes, a billion more of Government paper, which must in the very nature of things lead on to other hundreds of millions and billions more of fiat.

The people of this country, in Congress and out of it, seem to be thinking of isolated facts, of isolated circumstances, not at all realizing that great laws, as certain in their operation as the law of gravitation, must inevitably control the situation and that the measure of our misfortune and misery will be in the degree of our folly.

The third fundamental defect in our Government practices to which I desire to call the attention of this House is the handling of our Government funds.

Think of it, gentlemen; instead of our Government receiving payment and paying its own obligations as all governments, States, cities, and business establishments do, we are actually withdrawing from the channels of trade daily the reserves which ought to continue in a normal relation to the business of the country.

If any corporation or large business house pursued the practices of this Government, I think it should and would be mobbed inside of a week for doing it.

The subtreasury system of the United States has been a curse to the commerce of the country ever since it was established; and it has been more of a curse in recent years than ever before, simply because the business of the country has grown to such proportions and the Government transactions are so large that our practices amount to a threatening commercial earthquake.

Not only is this true, but it is a constant source of suspicion, a source of hatred, and a source of sectional rivalry. Indeed, I do not know of anything in this country that has constantly aroused such a bitter feeling between the various sections of the country as the distribution of this money forcibly withdrawn from the business of the country, and I was on the point of saying forcibly put back in times of stress.

A desperate effort is being made at this very time to get evidence to show how favorite cities, possibly favorite banks, have obtained an advantage by securing an undue share of the public funds. The bank which the Secretary of the Treasury honestly believes needs it most undoubtedly gets the money, but the opinion, the conviction, which necessarily must result from the impression made on the Secretary by the arguments advanced and the showing made controls his action. If the applicant is eloquent and powerful and his influence very great, the Secretary of the Treasury, being human like the rest of us, is moved naturally just as all the rest of us would be.

The United States Government should receive its revenues by check and draft of national banks and deposit its money every day by check and draft and withdraw it from the bank by check and draft precisely as any other business institution does, and should cease to be a disturbing factor in the business of the United States.

It is impossible to pull one million, five million, ten million, twenty-five million, fifty million, two hundred and fifty million dollars of the reserves of this country out of the channels of trade without disturbing our business conditions most disastrously. Nor is the withdrawal of the reserve from the channels of trade much more unfortunate in its ultimate effect than the thrusting of this vast sum back at places and at times wholly without reference to the actual commercial requirements.

You will observe, gentlemen, that I speak of commercial requirements. These transactions have no natural connection with the commercial movements of the country. The transactions of the Government have become so stupendous that the public welfare demands a rational disposition of the public revenues.

I desire to call the attention of the House to the fourth fundamental defect, which is the banking system, or banking practices, rather, of the country.

Our banking system is individual and is the counterpart of that characteristic which, I think, distinguishes our people from those of

all other countries in a marked degree, and that is our individualism. The American citizen is the most positive, characteristic, and individual human being in the world. He is the outgrowth of our political institutions, and, therefore, naturally so, and our banking practices are in perfect keeping with that individualism. It is the individual system, the unit system.

We have in this country to-day, national and State banks and trust companies, 19,746 independent and individual institutions. Their position depends in some instances almost entirely upon the standing of the officers of the bank, the capital varying all the way from nothing up to $25,000,000. The deposits of these commercial banks are now in excess of $13,000,000,000, while the number of depositors now runs into the millions. Of the national banks there are 6,620, while of others there are more than 13,000.

Now, gentlemen, this individual banking system can never stand alone, because just as quick as a rumor sweeps across the country every man who has a dollar deposited in any bank, except one of the very largest capital, compares at once its deposits and its reserve. He fears it can not pay, and he begins to doubt whether any bank will survive. The result is that there are runs on banks all over the country.

We must coordinate all our banking institutions, gentlemen, and bring them into one harmonious whole, so that while we gain all the power of a great central bank—indeed, the greatest in the world—we shall lose none of the individualism of the American bank, which is a source of local pride and will be a great source of power in the development of American resources, American character, and American institutions.

Up in New England you have a grand system of mutual savings banks. Go down to Boston, and you will find trust companies doing everything a bank can do—indeed, everything they are authorized to do under the proposed bill. It is a trust company, it accepts deposits for savings, it does a commercial business, it has time certificates, it does absolutely everything that a bank can do. A national bank in the same town can only do a commercial business.

Go to New York, and the trust company does everything except strictly discount business. Go to Philadelphia, and a trust company, I believe, does everything that a national bank can do and all that a trust company can do, and it takes savings deposits besides.

Go into a trust company in Detroit, Mich., and you will find that it can only do a trust business, because the State banks anticipated the encroachments and limited the powers of trust companies, so that a trust company can not do anything except a strictly trust business. Go out to Chicago, and you will find trust companies doing anything that any bank can do, wherever it may be located. Beyond New Jersey and New York in the United States there are only twenty-five mutual savings banks in the United States. All the rest of them are stock companies run for profit.

So what have we in this country? You have banks doing business with no reserves, banks with 5 per cent reserves, banks in some States with 10 per cent reserves, and in others with 15 per cent, and the result is that these institutions can do all kinds of business, act as executor, administrator, guardian, and trustee, accept savings accounts, and do

a general commercial business, in many cases carrying only such reserves as their own sweet wills suggest or such as may be required by State statutes, ranging all the way from nothing up to 25 per cent.

Such a condition must inevitably lead to a constant warfare between the different banking institutions of the country, and ultimately destroy the national system, if it does not resort to these same sources of profit, because the other institutions, having to carry very slight, if any, required reserve, can pay such a rate for deposits as to ultimately undermine national banks doing a strictly commercial business.

In the face of this destructive competition there has developed recently in the evolution of American banking this practice or device. A national bank—the First National Bank of Chicago is an illustration, and it is one of the greatest financial institutions of this country, and its president is, I think, the greatest banker, distinctly so speaking, in the United States—probably started the scheme because of the pressure of other banking institutions doing all kinds of modern banking, as I have pointed out.

Mr. Forgan, president of the First National Bank of Chicago, has organized the First Trust and Savings Bank, which occupies the floor below the First National Bank proper. The capital of the institution downstairs is, I think, a million dollars, all of which I presume is in the vault of the institution upstairs. This annex to the upstairs institution now has, I think, about forty millions of deposits, and, considering the length of time it has been doing business, is quite the most remarkable of its kind in the United States.

These two institutions I am confident are managed with the greatest of skill and absolute integrity. But this practice is sweeping over the country, and other national banks have taken it up as a method of meeting the competition of the various State institutions which have such a decided advantage over the national banks.

The other day I called the attention of Comptroller Ridgely to the fact, and he said: "Yes, it is being done; and in some cases I am going downstairs or upstairs, as the case may be, and examining these savings banks and trust companies."

Now, will Mr. Ridgely tell us what right he has to go into a savings bank which is carried on under a State law, or into a trust company which is conducted under the State law? None whatever.

So, as you go about the country investigating this question, you will find the national bank on the corner and a savings bank around the corner and the back ends of the two institutions in happy and convenient conjunction; so that when the national bank examiner appears he gets all the best securities of both institutions, and when the State bank examiner appears he has the pleasure of seeing the same best securities.

This thing went on to such an extent in the New England States a few years ago that in Massachusetts and Connecticut at least, and possibly in other States, they passed laws absolutely prohibiting any national bank and savings bank from occupying the same building or from having any connection whatever.

So, too, you will find some unholy alliance with a trust company up the street, down the street, or across the street. These practices were illustrated to an astounding degree by Mr. John R. Walsh in Chicago within the last two years.

Is it not high time that the American people know what is actually in the bowels of both of these banking institutions which are working in such happy harmony with each other?

The people should be deeply interested in their own affairs; and we should legislate for the people and absolutely protect the people if possible, realizing that the banks can and will always take care of themselves.

I do not believe that I am far from the exact truth when I say that the unfortunate experiences through which we have been passing during the last three months had their beginning and were precipitated by conditions that were wholly due to this character of banking in New York City.

What was the situation? The trust companies of New York had been making war upon the national banks of New York for years just as I have pointed out, by bidding up on deposits. The Knickerbocker Trust Company, because, of course, it was not compelled to carry adequate reserves, would take a deposit from anybody, practically, and give 4 per cent on it. Its required cash reserve was just 5 per cent. Of course it could take deposits from the national banks which could not possibly afford to pay more than 2 in reason. The story of the Knickerbocker was only the story of several others. Hence a feeling grew up in that city that amounted to actual war between the national banks and the trust companies which had withdrawn from the clearing-house association because, forsooth, the national banks insisted upon their carrying larger reserves.

When this trouble came on and the Knickerbocker appealed for help, one president of a national bank said at the conference to consider the application: "If I had my way I would let every trust company go to the wall—I would make an example of such banking methods." To this Mr. Morgan replied: "You don't know what you are saying. There is a leak in the dyke, and you can stop it now by putting forth your hand. Later on you may throw your dead body into the breach without being able to stop the flood."

What might have happened in New York City, what might have happened to the whole country, no one will now ever know. Mr. Morgan, a giant of giants, the Hercules of finance, a banker statesman, a banker patriot, a man with a great heart as well as a great intellect, stood like Gibraltar protecting the nineteen billions of resources of our banks, protecting the occupations of 25,000,000 American men and women, protecting the national welfare against the consequences of a more destructive, terrific, and appalling cataclysm than has ever swept over the commerce of any country.

Is it wise to remain in a position where you must depend upon some one man? And who will take his place when he is gone? Is it not high time that we had a scientific, sound, and wise system of finance and currency; one that can stand alone, one that can stand the strain of contracting credit when the hour comes?

Mr. Chairman, the fifth fundamental weakness or defect in the present financial and currency situation grows out of the fact that the national banks are the owners of practically all of the 2 per cent Government bonds, or seven hundred million of them, which, including the premiums, represent seven hundred and fifteen millions of dollars.

Suppose we should have a war, a great war, calling for the issue of two or three billions of dollars of bonds? The rate of interest must necessarily rise to 4, probably 5, per cent. What would be the price of our 2 per cents? Would they fall 20, 30, or 40 per cent? Thirty per cent would mean a loss to the national banks of this country of $200,000,000. The banks would not be the only losers. The people of this country, with a third of the national banks going down, must be the ultimate sufferers.

Now, gentlemen, these are the great fundamental and serious defects of our financial and currency practices—I will not call it a system. It is not entitled to the name. The time is now ripe, the opportunity at hand, when we can eliminate every one of these defects and secure a scientific, sound, and wise financial and currency system. It can all be done in three or four months, and nobody in this country need know that it has been accomplished, except the banks, who will do the funding of the bond-secured notes, the United States Treasurer, and the Comptroller of the Currency. Once in operation, I feel confident that we should have, all things considered, the best banking and currency system in the world.

I hope and believe that my exposition of the proposed measure will demonstrate that it will achieve the following results:

First. It will unify our banking system.

Second. It will provide that our bank reserves shall be in gold coin or its equivalent.

Third. It will establish a simple and scientific monetary system with gold coin, or its equivalent, as bank reserve with guaranteed bank-credit notes redeemable in gold for our larger bills, and with silver for our smaller bills and subsidiary coins.

Fourth. It will secure an absolutely free issue of credit currency redeemable in gold coin, always adapting itself to the ever-varying needs of trade; never too great, never too small, always just adequate to the requirements of business.

Fifth. It will establish in the United States Treasury such a guaranty fund as will absolutely protect all depositors, and thereby prevent panics and the hoarding of money.

Sixth. It will completely divorce the operations of the United States Treasury from the trade and commerce of the country, and thereby prevent them from being a disturbing factor in our business.

There are those who think a central bank would bring the desired reforms and is what we want in this country. I have thought a good deal upon this subject. It may be possible, but after a long and serious consideration of the subject I do not believe that these defects and evils in our present system can be eradicated through a central bank. I do not believe that a central bank is suited to this great country of ours. I do not believe it is suited to the people of this country. I believe that this country is too partisan a country to ever be a proper place for a healthy and normal development and proper administration of a great central bank. Our political institutions, in my judgment, are not suited to a great central bank.

Mark this now: France has a central bank, the best in the world. Its charter was drawn by that matchless intellect of his time, Napoleon. France has 204,000 square miles of territory. Germany has 208,000 square miles. Either of these countries can be dropped into the grand old State of Texas, which has 265,000 square miles, and

leave us with the square miles of Illinois to spare. The United States has 3,742,000 square miles. The distances are so great and the products of our country are so varied that I do not believe that a central bank could meet the requirements of our vast business interests and treat them as they should be treated.

There is another thing. Every one of these great central banks of Europe is presided over by the greatest economists, by the most successful business men, the profoundest scholars, and the wisest statesmen of their respective countries. Is there any man here whose imagination will suffer him to believe that you can establish such an institution in this country so far as he has watched the political forces of this country?

Mr. Chairman, in the orderly discussion of this question and in the accomplishment of the things that are to be desired, the first and most important thing, as a matter of soundness, is to unify the banking interests of this country, bringing them under one uniform law and common administration, from the Atlantic to the Pacific and from Canada to the Gulf.

That this can be done let no man doubt, and that, too, without friction or shock, and only with the more wholesome, uplifting, strengthening, and reassuring effect to the business interests of this country and the reestablishment of absolute confidence, which has been literally shattered by our bond-secured currency, because it has utterly broken down in a time of prosperity, when no other possible excuse can be given for our inability to transfer the title of a bale of cotton, a fat steer, or a bushel of wheat, although the consumers at home and abroad were anxious to secure them at high prices.

The unification of our banking interests can be secured without any possibility of doubt if the following powers are granted to the national banks:

First. Allow the national banks to issue credit notes, converting their deposits subject to check into current credits redeemable in gold coin.

Second. Allow the national banks to guarantee their deposits by establishing a guaranty fund in the Treasury of the United States which will exceed $500,000,000 within the first year.

Third. Allow the national banks to act as guardian, executor, administrator, and trustee.

Fourth. Allow the national banks to accept savings-bank accounts.

Fifth. Allow the bankers themselves of each commercial section or zone of our country to examine and supervise the banks of their respective sections.

With these provisions placed upon the statute book no State bank or trust company can stay out of the national system; and if they can not stay out of it because of its advantages to the people, they ought to come into it. That is self-evident.

With the banking institutions of our country all under one uniform and harmonious administration, the banking business will be unified, our reserves will all be alike in quantity and quality. There will be nothing but gold or its equivalent in our bank reserves, and these should and would be sufficient to prove our credits and protect our depositors.

This accomplished, we naturally turn to the subject of the administration of this unified banking system.

After much deliberation I have become convinced that in working out a scientific banking system for the United States it should not only be sound, but wise, from the standpoint of American character, our political institutions, and the needs of a vast country, with products almost as varied as those of all the rest of the world.

I have become convinced that the autonomy or independence of each individual bank in this country ought to be preserved, and also that local self-government ought to be vouchsafed to the banking institutions in all the commercial zones of the country, precisely as political self-government was secured to the respective States of the Republic. How successful I have been in working out this thought and practically applying it the sequel of the plan will show.

The organization of the system is this: The Comptroller of the Currency, for additional reasons, which will subsequently be disclosed, shall select certain cities of the United States, which shall be known as "redemption cities," where the notes of the banks of the country shall be redeemed. Of these cities there will probably be in the neighborhood of twenty, and, for the purpose of my argument, I will assume that the number is twenty. All of the banks that may redeem their notes at any given redemption city so selected shall be and constitute a redemption district.

To be more explicit and illustrate the principle or process, let us assume that the city of Boston is a redemption city and that New England is a redemption district. Then every bank in New England which redeems its notes at Boston becomes a unit of the district precisely as every citizen is a unit as a voter—the bank with $25,000 capital votes on equal terms with the bank of $10,000,000 capital. All the banks of New England constituting that redemption district, under a call by the Comptroller of the Currency, will meet upon a day fixed and at a place determined upon, and proceed to elect a board of managers, consisting of seven members, for that district, precisely as you elect a board of managers for a clearing-house association.

Would they elect the same class of men that Boston and New York and Chicago select as their clearing-house board? Certainly they would. Having elected a board of seven men, the seven men then select one of their number as chairman of that board, who in turn becomes a deputy comptroller of the currency. Now, this board supervise the banks in that district. They employ the examiners. They direct them, and the examiners are paid by the Government out of a fund created and not by the banks as now in the form of fees. This board of managers meet every month at least, but they may meet oftener.

I apprehend that you are confident that this board would know what was in the assets of the banks, especially when they came to realize that that New England district was to pay 10 per cent of the loss of any failures that occur in that district. That would make every banker in the New England district a guardian of the banking interests of New England, and he would invariably report to this board of managers whatever he saw that was wrong.

I apprehend that the examinations made by this board would be very different from the examinations that are being made to-day. I think I may assume that if we had had such a board in New York City, the Knickerbocker Trust Company never would have failed; and that the National Bank of North America, which closed its doors

this morning, never would have failed; and that all the consequences flowing from those failures never would have been visited upon this country.

Mr. Chairman, mark this and note well the last step in the proposed organization. The chairman of the board of managers of the redemption district of New England, together with the chairmen of the other nineteen boards of managers of the several redemption districts, will constitute a general board over which the Comptroller of the Currency shall preside, and this board shall meet at least twice every year; possibly this should be more frequently, say, at least every three months during the year.

It will be observed that the twenty representatives of the various boards of managers will come from all sections of the country and bring with them impressions, advice, and opinions and all the conservatism of their respective boards.

Is it too much to hope and believe that through this board, representing as it does all sections of the country and all the varied business interests of the United States, we shall have a great conservative force to keep in bounds, direct, and control the commerce and business generally of the United States in a manner and to a degree that will prove most wholesome and advantageous to all the people?

Having thus completed the organization and perfected the system of redemption at the various cities selected by the Comptroller of the Currency, we should be ready to carry the funding operation provided for in the measure into effect.

Section 11 reads as follows:

SEC. 11. That upon the completion of the organizations of the several bank-note redemption districts, as hereinbefore provided, any national bank may retire all of its present bond-secured note circulation by depositing with the United States Treasurer an amount of the present bond-secured notes and of lawful money, which, together, will be equal to its entire circulation now outstanding, and may thereupon take out for issue and circulation an amount of bank notes, which shall be known as "national bank guaranteed credit notes," equal to its paid-up capital without depositing United States bonds to secure the payment thereof, as now provided by law: *Provided, however*, That before any national bank shall have the right to retire its present bond-secured circulation and take out "national bank guaranteed credit notes," as in this section prescribed, it shall first, unless located in its redemption city, make arrangements with a national bank which is located in its redemption city for the redemption of its bank notes in gold coin or its equivalent; and shall deposit in gold coin, or its equivalent, with the Treasurer of the United States an amount of money equal to 5 per cent of its average deposits during the preceding calendar six months, and in addition thereto an amount equal to 5 per cent of the "national bank guaranteed credit notes" it proposes to take out for issue and circulation.

From the most casual reading of this section it will be observed that there can not be the slightest disturbance to the business of the country, but, on the other hand, immediately a most wholesome reassurance, because thereafter no depositor of a national bank can ever lose a dollar. Nay, more than this; there will come a consciousness that thereafter there will always be springing into existence currency to meet every demand of trade, and a currency panic such as we had last fall will become impossible.

While I shall not take the time of the House to read a statement from the Government actuary, I shall include it at this point of my remarks for the information of the Members of this House and the people of the country who desire to know just how the bill actually affects the banking institutions of the country.

TREASURY DEPARTMENT,
OFFICE OF THE GOVERNMENT ACTUARY,
Washington, January 27, 1908.

DEAR MR. FOWLER: As you requested, assuming that we are dealing with a country bank, which is required to carry a reserve of 15 per cent, of which 9 per cent may be kept with a reserve agent, the following will show the result before and after the bill (H. R. 12677) went into operation:

	Under present law.	Under H. R. 12677.
Capital of country bank	$100,000.00	$100,000.00
Circulation	100,000.00	100,000.00
Deposits	2,000,000.00	2,000,000.00
Bonds deposited	100,000.00	----------
Cash reserve:		
On deposits	120,000.00	120,000.00
On circulation	6,000.00	6,000.00
With reserve agents—		
On deposits	180,000.00	80,000.00
On circulation	9,000.00	4,000.00
With Treasurer of United States—		
On deposits	----------	100,000.00
On circulation	----------	5,000.00
Bonds sold	----------	100,000.00
Interest received:		
On bonds	2,000.00	----------
On deposits	----------	1,050.00
Expenses:		
Tax	500.00	2,000.00
Expenses, general	62.50	62.50
Available loanable funds	2,785,000.00	2,885,000.00

Respectfully,

JOS. S. MCCOY,
Government Actuary.

POSTSCRIPT.—By section 15 of the above-mentioned bill, as soon as the guaranty fund in the United States Treasury amounts to $25,000,000, all of the bonds now deposited by the national banks with the Government to secure Government deposits shall be returned to the bank. So that the full effect of this feature of the bill is, first to buy all the 2 per cent bonds at the actual price paid for them (see sec. 18), and, second, to return all other bonds to the banks.

If, as I confidently believe, the State banks and trust companies become national institutions, 5 per cent of their deposits now exceeding $13,000,000,000, and 5 per cent of the probable amount of credit notes taken out, $1,000,000,000, will establish a guaranty fund in the United States Treasury of $700,000,000.

What would be the effect upon the banking interests of this country? What would be the effect upon the business interests of this country? What would be the effect upon the depositors of the country? What would be the effect upon the hoarders of money throughout the country? What would be the effect upon the foreigners that come to our country and are advised of the fact that there is a guaranty fund of $700,000,000 in the United States Treasury to protect the depositors in our national banks?

In a subsequent section of the bill it is provided that 80 per cent of the vast sum so deposited in the Treasury to guarantee deposits shall be invested in the 2 per cent bonds of the United States Government, which are now held by the national banks to secure their circulation, and any other 2 per cent United States bonds which they may have held on the 1st day of January to secure Government deposits held by them. It is to be observed for the information of the House and the bankers of the country that the 5 per cent of the deposits and 5 per cent of the note issue is a part of the required reserve of the bank, as is illustrated in the statement of the country bank

prepared by the Government actuary, to which I have already called your attention.

Let us consider for a moment what the annual income will be which is to be added to this guaranty fund after paying the expenses of the redemption agencies.

First, probably 1 per cent on the $700,000,000 will be derived from the bonds and other resources, $7,000,000; second, the tax upon the circulation, amounting to a billion, at 2 per cent per annum, amounts to $20,000,000; third, the interest on Government deposits, at the rate of 2 per cent per annum, will probably amount to $3,000,000, or a total of $30,000,000.

The expenses for redeeming the notes will probably be about the same as the Government paid last year for redeeming national bank notes, which was 98 cents per thousand; or, calling it $1 per thousand, and estimating that the redemption of our notes will equal those in Canada, where the principle is the same, or ten times during the year, we shall have a fixed charge of $10,000,000.

The cost of bank examinations under the Comptroller last year amounted to $425,000. Let us assume that, in this case, it will be a million, for the examinations ought to be more frequent, $1,000,000, or a total expenditure of $11,000,000, leaving a net balance of $19,000,000.

Since provision has been made to guarantee all deposits and note issues, it becomes interesting to know what the losses have been during the last forty-four years, or since the establishment of the national banking system.

There has been a total loss to the depositors in those forty-four years of only $33,183,290, or an annual loss of $771,704. The tax upon the average of deposits payable on demand to pay all these losses would only have been thirty-seven one-thousandths of 1 per cent.

Since the net amount left in the Treasury from the income account would be about nineteen millions for the first year, it would last about twenty-five years.

The insurance of deposits is a matter that has been discussed somewhat throughout the country, and I want to give the subject a little time in order that it may be thoroughly understood. Ten years ago I introduced a bill incorporating this principle, but making it optional with the banks to insure their depositors.

On Wednesday, March 31, 1897, I used this language, referring to this subject: "The principles that control in the vast operations of both life and fire insurance are identical with those upon which this provision rests. But my mature thought impels me to the conclusion that in neither is there so much need of averaging risk and escaping the consequences of misfortune as in the proposed remedy for the crash and widespread ruin that almost invariably follow bank failures to-day."

Life insurance is nothing but cooperation, to which each one contributes something. In life insurance a man must die to win. If he lives out his allotted time, he pays in full for his insurance. If a man dies who has insured his life, his family only are affected, and, materially speaking, are provided for to the extent of the insurance.

You insure your house. Suppose there are ten residences in the block; yours may be a stone house, the next a frame house, the next

a brick house, and the remainder may all be frame houses. On the other half of the block there may be a woodworking establishment, which greatly endangers all of the residences. If you live in the stone house, you find that your insurance rate is exceedingly high, and upon inquiry ascertain that it is so because of the frame house next your own, and especially because of the woodworking establishment on the other half of the block. Yet you readily pay your insurance because of the danger of the neighborhood. This is the application of the law of cooperation so long established and so beneficent in its results that no one now stops to question the wisdom of it.

Mr. Chairman, if there is one reason why this man should insure his life and that man his home, I assert that there are a thousand reasons why the bank deposits of this country should be guaranteed.

I assert that all deposits in our banks are involuntary. Now, why are they involuntary? Because no one has the privilege of putting his money where it will earn a fair rate of interest—say 5 per cent—absolutely free from risk and at the same time be able to recall it if he should desire to use it. Therefore he must choose some bank, and the very fact that it requires a choice between banks implies a risk which he must take.

To illustrate the force of this statement you may take a city that has ten banks. The man who is in business deposits his money in one of these banks because he must have the convenience of a bank to carry on his trade. While, as a matter of fact, he has ten banks to choose from, in the last analysis he must take one of them, even though he has little confidence in any of them. Therefore he is of necessity an involuntary depositor.

Reduce the number to three banks, and he must make a selection of one of the three, although he may have misgivings about all of them. Reduce the number to two, and he is driven to the choice of only one. But there are many places in which he is compelled to use the only bank in the village where he resides. Therefore I assert that there is no question as to the fact that every bank deposit is involuntarily made, at least wherever it involves a choice, and especially where there is no choice.

Think of it. There is not one person in ten thousand in this country to-day able to have a bank account who can understand a bank statement. And of those who can understand a bank statement and explain its various items not one in ten thousand, again, has any idea whatever about the true inwardness of the bank at which he is doing his business. How can he know? He can not examine the loans and discounts of the bank. If he has any information at all, it must be such as he obtains from a statement of some member of the board in whom he has confidence. In the last analysis it is absolutely a matter of faith, and blind faith at that. The depositor is always wagering or betting the total amount of his deposit, whatever it is, that the bank is safe.

The deposit, therefore, must always necessarily be an involuntary one, since a thorough knowledge of the assets is essential to an intelligent exercise of choice, which is absolutely impossible in every case except that of an officer of the bank.

Widows and orphans are constantly putting their money into the banks of the country. Why do they put it in a particular bank? Simply because some friend tells them that he does his business

there. Can you say that they ought to exercise their judgment? What would their judgment be worth? It is not a question of discretion; it is simply a question of confidence, and that, too, in the word of some one director who may in fact know absolutely nothing about the real condition of the bank, but, in turn, has perfect confidence in the president or cashier who is managing the concern.

When a bank fails it is not as though a man's life had passed out or his home had burned down. When a bank fails widows and orphans lose all they have in the world—a competency is wiped out and beggary follows.

The State and the taxpayers are interested in preventing such misfortunes. A merchant may be keeping his account at a bank, relying absolutely on the institution to protect his interests, and if, by chance, he is an employer of a hundred men, 500 women and children may be dependent upon his employees.

Again, a manufacturer who is employing a thousand men, with 5,000 women and children depending upon them, keeps his account at a bank. If the bank fails and the loss to the manufacturer is so great as to destroy his business, 5,000 women and children are without support—the children may be driven from the public schools through the need of proper clothing.

This is not all. The ramifications of credit are so extended and intricate that the business of the whole country is affected from one end of it to the other by bank failures, and no man can estimate the consequences, direct and indirect, growing out of them.

I assert again, after the most mature deliberation, that if there is one reason for insuring life or home, there are more than a thousand good reasons, nay more than 10,000 good reasons, why the depositors of the banking institutions of the United States should be insured.

If, as I have demonstrated, in case the proposed bill should become a law, we should have approximately seven hundred million in the United States Treasury guaranteeing the deposits in the national banks, panics in this country would forever be at an end. They would be a thing of a bitter past. May God hasten that day.

Only a short time since, when talking with the president of one of the very largest banks in New York City, he said: "An old gentleman, Mr. So-and-so, came in here with his wife and daughter and, sitting down at that table, demanded that the whole of his deposit, amounting to $800,000, be paid him in gold. This he took downstairs and locked up in the safe-deposit vault.

"Another man came in and, sitting down at that same table, demanded what we owed him—$1,500,000—and he took that downstairs and locked it up.

"Yesterday a lady came in and drew a thousand dollars, which she said she wanted to use in a trip to southern California. One of the officers of the bank remarked that she had a lot of money now and could go and have a good time. 'Yes,' she said, 'I have plenty of money; I have $300,000 downstairs in a box.'"

It is confidently believed that more than two hundred and fifty million of reserve money was locked up in New York City alone on January 1, 1908. What does that mean, gentlemen? It means a contraction of credit ranging all the way from one billion to one billion and a half.

A Member of this House told me the other day that a suspicion existed in a Pennsylvania town that some workmen who were down in a coal mine intended to blow it up. A search was instituted, and, as a result, $32,000 in actual money was found upon the persons of the miners.

It is known that thousands upon thousands of foreign laborers in this country have been purchasing domestic post-office orders for their savings—losing interest simply to be safe, as they would be with the guarantee proposed, and as they know they would be.

It is altogether likely that, as a result of the conditions which have prevailed throughout the United States during the last few months, such a pressure will be kept up that sooner or later we shall have a postal savings bank in this country in order that the masses of the people may have a safe place in which to put their savings; and then the Government of the United States will have to become a large buyer of bonds to invest these accumulations. For one, I am utterly and absolutely opposed to the Government of the United States doing anything for the American people that the American people can do for themselves. [Applause.]

More than all this; the States are already taking this matter up, and Oklahoma has already passed a law providing for the guarantee of depositors. The legislature of Kansas has been called in extra session for the express purpose of considering the same subject, the banks on the southern boundary of that State having complained that they were losing deposits.

Day before yesterday I received a letter from one of the leading bankers in Nebraska, who said that just as certainly as Kansas passed such a law Nebraska would also pass it; and, although he doubted whether the governor would call an extra session for that purpose, he knew that at the next session of the legislature such a law would be passed.

I believe that such legislation is a form of socialism, and I am utterly opposed to it.

Mr. Chairman, we are occasionally met with the statement that the guarantee of deposits would lead to unsound banking. Can anyone think of a man the day that he gets his life insured purposely running under a street car to have his legs cut off? Can you imagine a man who, because he has insured his house, allows it to go into disrepair? Can you think of a banker, because he had insured his deposits, going into the directors' room and saying, "Gentlemen, we have insured our deposits to-day. Now let us proceed to make some rotten loans."

Is it possible that it will not occur to these directors that their losses must come out of their profits, out of their reserves, out of their capital, out of their reputations? Will they not realize that they can get nothing out of the guarantee until the last dollar of profits, surplus, and capital is wiped out, and the stockholders have been assessed in double the amount of their stock? Until their reputations have been injured, if not gone, and some of them possibly have started on the road to State prison?

Can anybody think that any board of directors of a bank would be less solicitous, anxious, honest, and wise after they had guaranteed the deposits than they were before?

Only the other day I saw in a bankers' bulletin an objection to the proposed measure; and knowing the writer to be a very intelligent man upon this subject, and he happened to be in this city on that very day, stopping at the New Willard, I proceeded to investigate the ground of his objection. Before finishing my conversation with him, having told him that his objection was not in accordance with his known view, he finally admitted that the reason he could not support the bill was that his partner owned 2,000 shares of the stock of a certain trust company, and therefore, of course, he could not support the feature referred to. I knew that as well as he did after he had told me that his partner owned that much stock in a trust company, which probably wanted to carry 5 per cent instead of 20 per cent of reserves, and so to that extent imperil the banking situation generally.

The oldest bank president in some town, or possibly the president of the largest bank in some town, may say that he will not have the advantage in the future to which he believes himself entitled if deposits are insured; therefore there will be two classes who will oppose this principle. But banks, like other business institutions, will gain not by mere age and respectability, or by mere bulk of capital, but rather by ability to meet the requirements of their customers. Square dealing and capacity will tell for just as much after deposits are guaranteed as before.

Is it not too high a price to pay to lay upon the altar of some man's ambition all the business interests of this country and still continue the habit of panics, the destruction of credit, and waste of business? On the one side there are personal ambition, vanity, the supposed advantage of a few hundred men; on the other side millions of depositors with $16,000,000,000 of deposits to their credit in our banks, and the families of 20,000,000 of American toilers. Which side shall we choose? Where does the duty of Congress lie?

So far, without a single exception, I have proved to my own personal satisfaction, actually or morally, that these objections to the guaranteeing of deposits have come from distinctly selfish motives. These, I assert, must yield to the greater good.

The currency now used by the rest of the civilized world is credit currency, with a single exception. That exception is Great Britain, and if Great Britain to-day were not the clearing house of the world she would have a panic almost every week, if not every week, of each year instead of every month. As it is, you find that she has often suspended the bank act and asked the Bank of France to help her out of her troubles.

All the rest of the world—Germany, France, Austria, Belgium, Holland, Scotland, Ireland, Japan, and Canada—have credit currency, $4,000,000,000 of it; yet we have not one cent. Can we enter into competition, half armed as we are, with the commercial world?

Gentlemen, the currency of commerce must be coined out of the productions of the country. Mark what I say; a true currency is coined out of the productions of the country, but it is the right of the people to say that that currency shall be maintained upon a gold basis by redeeming it in gold coin. If a man has a right to have a loan, as soon as he is granted that loan, say of $10,000, he ought to

have the option of having a book credit subject to check or the current credit of the bank.

The people create the bank and therefore the bank should be their servant. The bank should give us our credit in the form in which it suits our requirements and be compelled to buy gold enough to prove all these credits and protect all their depositors.

Allow me to illustrate this principle by taking the city of Dallas, Tex., which we will assume is a redemption city. A vast quantity of cotton is raised in that section, and, as is well known, it is a very expensive crop to produce; and when the picking, ginning, and baling time comes it takes an unusual amount of currency, probably much more than the amount of the capital of the banks of that section. Will anyone say that the farmers of Texas should be compelled to pay the express on currency from St. Louis, Chicago, or New York and return when, if the privilege were given them, the local banks could convert some of their book credits which are subject to check into note or current credit and save all this expense?

Take the city of Pittsburg in the last panic. What happened in this greatest manufacturing center of the world? What would the Pittsburg banks have done without credit currency which they created without authority of law? How much did they issue? Forty-eight millions of credit currency, much of it in one, two, three, and ten dollar bills.

What did the banks do all over the country? They did precisely what nature told them to do. They created current credits, basing them upon the products of the land and the shops. This is precisely what the Bank of England always has done when she has been compelled to suspend the bank act; she has based her bank notes, or created a credit currency, upon the products of Great Britain. I use this expression of course economically, for it only needs to be stated to be appreciated that the commercial discounts in our banks are, economically speaking, the title to all the consumable commodities in the country.

During the last currency panic—for it was distinctly and absolutely a currency panic—we probably issued in the United States two hundred and fifty millions of credit currency; and we have already found, precisely as I said sixty days ago, that as soon as the need of it was over it would all disappear as naturally as it came into existence.

During the panic of 1856 and 1857 the 500 banks then doing business in the New England States increased their circulation from forty-nine million to fifty-five million, and the deposits fell correspondingly from thirty-nine million to twenty-five million; and the very next year, 1858, the circulation had fallen from fifty-nine million to thirty-six million, and the deposits had increased from twenty-five million to forty-seven million, illustrating with what perfect accuracy the book credits, when the pressure for currency came, passed into credit currency, and, when the pressure was over and the panic had subsided, the credit currency immediately passed back into book credits subject to check.

This illustration is a complete answer to every possible objection to the issue of credit currency by banks generally, and by any number of banks, whatever their capital, whether twenty-five thousand, two hundred and fifty thousand, five hundred thousand, or twenty-five million.

What happened in New England in that trying period, in conversion of one form of credit into the other and reconversion into the same form again, has been happening every year up in Canada since the establishment of the Canadian banking system, which, by the way, Canada took from the State of Massachusetts before the civil war.

I have been informed by Members of this House who live along the Canadian border that many Americans took their money out of our banks and placed it in the banks of Canada during the recent currency panic—a sad commentary, indeed, upon the practices that we still permit to exist, and a full and comprehensive reply to those who think that a credit currency involves any danger whatever to the banking interests of any country.

The variation of this change from one form of credit to the other in Canada averaged, in 1906, $3.29 per capita. The same variation or change from book credits to note credits would give the United States an expansion and contraction every fall of about $300,000,000, but, unfortunate to relate, we have not 1 cent of current credit.

Mr. Chairman, another illustration of the mathematical adaptation of credit currency to the present requirements of trade is found in the fact that every three months in Germany there is an average conversion from book credits into note credits and back again from note credits into book credits of $120,000,000.

In the face of these illustrations and the experience of New England before the war, with its 500 small banks, of Canada, with its 35 banks and their sixteen hundred branches, and of the Bank of Germany, with its quarterly variation of $125,000,000, can any Member of this House rise in his place and say that the board of managers of the redemption district covering the territory surrounding Dallas should not have the right to say that a bank with a hundred thousand capital and a hundred thousand of credit notes out, and a million of deposits, may convert fifty or one hundred thousand of its book credits or debts into fifty thousand or one hundred thousand of current credits or notes and thereby make it possible for the banks of Texas themselves to meet the requirements of the tradespeople and farmers of that great State?

In such a case the reserves of the bank have not been changed to the extent of a single dollar. The debts of the bank have not been increased to the extent of a single dollar. The bank has simply responded to the people of Texas in giving them credit in the form in which their peculiar business demanded it.

I assert, therefore, that the board of managers of any note-redemption district, whether it is at Dallas, or Boston, or San Francisco, or Pittsburg, or New York, ought to have the right to say to the banks of their respective localities: You may convert your book credits subject to check into current credits and supply the needs of the people, whether it is to gather crops or to meet pay rolls.

The Chairman. The time of the gentleman has expired.

Mr. Prince and Mr. Waldo rose.

Mr. Prince. I ask unanimous consent that the time of the gentleman may be extended for thirty minutes.

Mr. Waldo. I ask unanimous consent that his time be extended, so that he may conclude his remarks.

Mr. Prince. Yes; that he may conclude his remarks.

The CHAIRMAN. Is there objection?

There was no objection.

Mr. FOWLER. Mr. Chairman, we have been practicing a species of barbarism in this country ever since General Jackson destroyed the Second United States Bank.

Nothing so grotesque can be found in the administration of the financial affairs of any nation, State, city, or business institution as the practice of this Government in daily locking up a portion of our reserve money. The reserve money of the country should not be drawn from the channels of trade. It should be allowed to flow to the place where it is demanded normally and naturally, without interference on the part of this Government, which sustains no relation to the discounts or exchanges of the country.

The proposed bill provides, as I have already pointed out, that the Government shall receive checks and drafts of national banks for the revenues due it, shall deposit its money from day to day as everyone else does in the course of business, and shall check the same out as everyone else does in the course of business.

The banks of this country will take care of the business of this country if they are only permitted to do so. Certainly the Government will incur no risks, since it will hold approximately five hundred millions in cash and bonds to protest itself against loss.

I have already pointed out the danger which we are constantly incurring by continuing the existence of the United States notes, which ought to have been paid or retired long ago. This bill provides that after the accumulation of the guaranty fund shall amount to $25,000,000 the excess of the accumulations shall be turned into the reserve fund until the amount of gold coin in that fund shall be $346,000,000, when the United States notes shall be converted into gold certificates. Can anyone doubt the wisdom, indeed the importance, of eliminating these United States notes as soon as possible from our monetary system?

There is not imposed upon the United States Government the additional obligation of a single dollar in this bill, and yet we shall pay into the reserve fund in the course of ten years two hundred millions of gold, paying off the demand obligations of the United States to that extent.

I assert that the proposed measure, without the slightest shock to business, indeed literally unobserved and unnoticed, will accomplish the following purposes, which no one will deny should be achieved if at all possible:

First. It will relieve the banks from the danger of holding seven hundred millions of 2 per cent United States bonds.

Second. It will relieve the commerce of the United States from the burden of carrying nine hundred millions of its capital in fixed investment by paying the banks cash for all their 2 per cent bonds and returning to the banks all of those securities now deposited with the Government to secure Government deposits.

Third. It will provide a perfectly sound credit currency, which, while always being redeemed in gold coin, will invariably meet the ever-changing demands of trade in every locality of this great country, never being too great, never too small, but just adequate to our business requirements.

Fourth. It will put a guaranty fund of $700,000,000 in the Treasury, which will absolutely prevent panic and stop the hoarding of money.

Fifth. It will convert the United States notes into gold certificates.

Sixth. It will remove the Government forever as a disturbing factor in the trade and commerce of the country.

Seventh. It will insure adequate reserves in gold coin, to prove all of our bank credits and protect all of our deposits.

Eighth. It will insure the autonomy of every individual bank throughout the land, and guarantee local self-government of the banks in every commercial zone through a board of local managers just as completely and distinctly as self-government is maintained through our several States.

Ninth. It will give to this country through the union of the twenty boards of managers, representing all sections of our country, the greatest conservative financial power in the world; giving to all the banks the benefit of the caution and advice of men representing every section, and so conserve the commercial interests everywhere. We shall be bound together by a common guaranty fund which will soon reach a billion of dollars, and also by a common purpose to make our banking business what it should be; the equalizing influence running through the years and preventing in a large measure the overexpansion of credit due to speculative prices, which is always a source of danger.

Mr. Chairman, so long as there is in this country a demand every fall for an extraordinarily large amount of currency, now exceeding $300,000,000, and so long as we are compelled to use our legal reserve money, gold, gold certificates, United States notes, silver and silver certificates, to supply this demand instead of using current credit, we shall never escape the extremes of 1 per cent and 100 per cent money; and so long as we have these tragic variations we need not hope to share in any part of the world's exchanges. But, sir, give us the reforms that will be effected by the proposed measure and the United States will at once challenge the world for its financial supremacy, and the bills of exchange drawn in every nook and corner of this globe will bear the signet of the eagle and not of the lion and the unicorn.

And finally, sir, a matter which should never be forgotten, nor overlooked by any nation. should not escape our attention now, particularly now, and that is this: Is our financial battle ship of the best modern type, or is it an old sailing vessel with a rotten wooden hull?

Sir, you may appropriate money enough to outstrip in equipment at Annapolis the naval schools of the world; you may meet the demands of the most fearful and cautious, passing in your naval expenditures the fifty-million mark every year; you may send out your fighting monsters under the ablest and best trained men that ever stood upon the bridge of a battle ship; you may build up the finest military school in the world at West Point, and educate a small army every year in the science of war; and you may train a million militiamen at the cost of the States; yet I tell you now that the one thing above all others that this nation needs, if you would be prepared for the issues and events of a great war, is a financial system that will not break down when the first shock comes, but through which the wealth and productive power of this country can be utilized with the greatest economy to the Government and with absolute safety to our people.

Let us remember the warning of this day; the fortress of all fortresses, the army of all armies, the battle ship of all battle ships is the efficiency of your Treasury. [Prolonged applause.]

Now I am ready for your questions.

Mr. UNDERWOOD. Mr. Chairman, I would like to ask the gentleman a question. I understand that the gentleman states that the cause of the present panic was the congestion of bank reserves in New York City.

Mr. FOWLER. I did not say anything of the kind.

Mr. UNDERWOOD. The accumulation of the bank reserves?

Mr. FOWLER. I did not say anything of the kind. The gentleman was never further wrong in his life.

Mr. UNDERWOOD. I misunderstood the gentleman. I understood him to say that the bank reserves, the reserves of the banks, coming to New York and being drained out of there without credit currency to take their place was the cause that brought about the present panic.

Mr. FOWLER. No; I don't think I said just that. I said this, that when the panic struck New York and the people of New York made a run upon the banks, and took away about $125,000,000, they did not have the currency with which to respond to the demands from the West and South.

Mr. UNDERWOOD. I will ask the gentleman if the people in New York did not run upon the banks of New York because the reserves in the banks of New York had fallen below the legal limit, by being drawn into the West to move the crops?

Mr. FOWLER. I don't think so. I don't think there were any runs on any national banks in New York City except the Mercantile. I will make one other exception, the National Bank of North America, which they run upon because of the association of certain men with that institution; but I don't think there was a run on any other national bank.

Mr. UNDERWOOD. The object of the gentleman's emergency currency——

Mr. FOWLER. I don't have any emergency currency. I am utterly opposed to it.

Mr. UNDERWOOD. Of his asset currency.

Mr. FOWLER. Credit currency. Let us call it a scientific name.

Mr. UNDERWOOD. His credit currency—it is to relieve the banks——

Mr. FOWLER. No, sir; it is absolutely for the advantage of the people and not of the banks at all.

Mr. UNDERWOOD. It is to meet an emergency.

Mr. FOWLER. Not an emergency. I do not admit there is any such thing. It will prevent an emergency. [Laughter and applause.]

Mr. UNDERWOOD. The gentleman is trying to correct an evil. Now, does he not admit an emergency exists to-day, or is there an emergency to-day?

Mr. FOWLER. No; not to-day at all. There is more reserves in the banks than there has been for seven years.

Mr. UNDERWOOD. Then no emergency exists?

Mr. FOWLER. There is no emergency, but there was a great demand for money, and the banks in different parts of the country hoarded it through dread.

Mr. UNDERWOOD. If by law we prohibit the reserves of the country banks from being deposited in the reserve centers would that not prevent the strain that has largely caused this panic?

Mr. FOWLER. It would lighten it but not affect the result of this thing.

Mr. UNDERWOOD. You know the drain on the New York banks from the western and southern banks——

Mr. FOWLER. My candid opinion is, if the country banks had not said to their country people around them, "My money is in New York and you can not get it," there would have been a run on thousands of banks in this country.

Mr. UNDERWOOD. I will state to the gentleman this. So far the information I got from my section of the country, if these reserves had been in their home bank there would never have been occasion for the issuance of clearing-house certificates by the banks of the South and West in their need.

Mr. FOWLER. I do not think it would have any effect whatever. Clearing-house certificates are issued by a bank in any locality, whether Chicago or St. Paul or Alabama or anywhere else, if the people become frantic and demand immediate payment. The bank must protect itself.

Mr. UNDERWOOD. Does not the gentleman think reserves should be maintained in the banks where the law requires it?

Mr. FOWLER. They are, and I can show you by last year's statements that the national banks had a large excess over what was required by the Government.

Mr. UNDERWOOD. They did not have it when the emergency came——

Mr. FOWLER. Yes; but did not have it when it was over. [Applause.]

Mr. BURTON, of Ohio. Does the gentleman yield for a question?

Mr. FOWLER. Yes, sir.

Mr. BURTON, of Ohio. As I understand the gentleman from New Jersey, his plan gives such advantage to all State banks as to make it an object for them to incorporate as national banks.

Mr. FOWLER. All other than national; yes, sir.

Mr. BURTON, of Ohio. That includes savings banks.

Mr. FOWLER. If they choose to do so.

Mr. BURTON, of Ohio. But would they not be compelled to do so?

Mr. FOWLER. It would be a matter for them to say entirely; it is optional.

Mr. BURTON, of Ohio. Is not the aim of the measure to make the business of banking so much more favorable under this law than under any State law that they would incorporate as national banks?

Mr. FOWLER. If they are savings banks in the gentleman's State, I certainly think they should be brought under it, because then we would know what was in their reserve; we do not know now.

Mr. BURTON, of Ohio. I will say that in my State they are all safe.

Mr. FOWLER. I suppose they are just as safe as anywhere else, and no safer.

Mr. BURTON, of Ohio. The 5 per cent that it is proposed shall be deposited applies to the currency issued and to the deposits as well?

Mr. FOWLER. Yes, sir.

Mr. BURTON, of Ohio. Does the gentleman believe that currency secured by the deposit of 5 per cent of its volume, when that 5 per cent is mingled with another fund which is also security for deposits——

Mr. FOWLER. What is that?

Mr. BURTON, of Ohio. You have 5 per cent of the average of your deposits? That is what the gentleman's plan suggests.

Mr. FOWLER. No.

Mr. BURTON, of Ohio. That is to be deposited in this fund?

Mr. FOWLER. But they have the same reserves in the banks that we have now, less that amount.

Mr. BURTON, of Ohio. That is, it is to be deducted from——

Mr. FOWLER. The reserves are identical with what they are now, except this, instead of banks carrying 5 per cent in a reserve city they carry it in the Treasury at Washington.

Mr. BURTON, of Ohio. The part that is reserved to secure deposits?

Mr. FOWLER. Yes, certainly; to guarantee deposits.

Mr. BURTON, of Ohio. And 5 per cent of the notes issued?

Mr. FOWLER. Yes, sir; and the same reserves also in the bank and with reserve agents that they hold to protect deposits.

Mr. BURTON, of Ohio. Does the gentleman believe that would be accepted by the people as a sufficient assurance that all currency would be safe?

Mr. FOWLER. I think that they would think it was a thousandfold as much as required as soon as they looked it up and found out that it would have taken for forty-four years a tax of only thirty-seven one-thousandths of 1 per cent each year upon our deposits to pay the losses.

Mr. BURTON, of Ohio. Does the gentlemen believe that the business community would go through that process of calculation?

Mr. FOWLER. They would not have to do so. I have done it for them. [Great laughter.]

Mr. BURTON, of Ohio. One other point in regard to this. The tax on the amount of currency issued is 2 per cent, I believe?

Mr. FOWLER. Yes, sir.

Mr. BURTON, of Ohio. And with that tax a bank could issue currency up to the amount of its capital, and with the approval of the officials of the redemption district an unlimited amount?

Mr. FOWLER. Yes, sir.

Mr. BURTON, of Ohio. Would not taxation at such a low figure inevitably lead to inflation?

Mr. FOWLER. No more than paying interest on deposits at 2 per cent, for, if the gentleman will think long enough and study this question thoroughly enough, he will find out that there is absolutely no difference between a deposit and a credit note. Again, there can be no inflation where the note can not be held as reserve; any bank holding any of them for that purpose must pay 10 per cent per day.

Mr. BURTON, of Ohio. Well, that is a question on which there is room for some difference of opinion.

Mr. FOWLER. The Bank of France, to illustrate, has a billion of notes out, mere current credits, payable to the people, and has only one hundred million of deposits subject to check. The New England banks before the war ran right along with forty millions of one and

forty millions of the other, and it is a matter of history, and I can give the gentleman forty cases, if he desires them, that wherever there is absolute freedom of transfer of a deposit subject to check into a note issue the habits of the people will always determine whether there are more notes out than there are deposits. For one hundred and forty-three years in Scotland they never had a deposit subject to check, but the farmers and merchants exchanged their time obligations with the Scotch banks for their duebills.

Mr. BURTON, of Ohio. The bank has the right to issue notes. Now, what will be the cost to the bank?

Mr. FOWLER. Just the same as it is to-day if the Government would produce——

Mr. BURTON, of Ohio. That is, it is 2 per cent tax and one-fourth, or 15 per cent, in the way of reserve, is it not?

Mr. FOWLER. What does the gentleman mean? Does he mean the cost of the note?

Mr. BURTON, of Ohio. It is a very simple question. Suppose a bank desires to issue bank notes. What would be the expense to the bank upon that issue of bank notes by tax and otherwise, and what is the probable income which it could derive from them?

Mr. FOWLER. The cost to the bank would be simply the same that it is for the deposits where they pay 2 per cent plus the cost of the notes up here at the Treasury Department—for the notes themselves.

Mr. BURTON, of Ohio. That is, the engraving.

Mr. FOWLER. Just the same as the deposits. The reserves are the same or identical with the deposits. There is no difference in the reserves, and the only additional cost is the cost of engraving the notes.

Mr. BURTON, of Ohio. What is the probable average income throughout the country that could be derived from the issuance of these notes?

Mr. FOWLER. It would depend on how long you could keep them out.

Mr. BURTON, of Ohio. What is the gentleman's estimate as to the average?

Mr. FOWLER. I have watched the bond-secured currency so long that I do not believe I could make an accurate guess of the right system. Now, for instance, if you want to know what I think about this bond-secured currency, if it was what it ought to be, we would retire between the 1st of January past and the 1st of July about three hundred millions or three hundred and fifty millions of them and put them away. But you will not retire one of them. They will crowd themselves into the reserves of this country and undermine our financial system precisely as I have already demonstrated they were now doing.

Mr. BURTON, of Ohio. I disagree with the gentleman in regard to that. But is it not an easy computation to arrive at the approximate amount to be realized from those notes?

Mr. FOWLER. I have no way of arriving at it until you try the system and find out how many notes you need in January and July and all the intervening months, nor can any other man. I do not know what the increase or decrease would be; but I only know this, that this currency would always be perfectly coordinated to the requirements of trade down to a cent.

Mr. BURTON, of Ohio. Would not the income to be derived from the issuance of bank notes where the tax is only 2 per cent—with reserve, it is true—be so great in times of high rates of interest, or even fair rates of interest, that it would inevitably lead to inflation?

Mr. FOWLER. The gentleman's question is based on a thing that never occurs in banking, and that is this: When a man borrows he does not borrow notes. Your question is based upon a false assumption, on the borrowing of notes. He borrows credit, or the right to have money. Now, if you should use these notes as reserves, then there might be something to your question; but if the bank holds these notes overnight as reserve it must pay a 10 per cent tax, and so for every day it counts them as a part of its reserve.

Mr. BURTON, of Ohio. It is an additional resource of the banks of just that much.

Mr. FOWLER. What?

Mr. BURTON, of Ohio. The bills that it might issue.

Mr. FOWLER. No more than any other form of taxation. There is no currency in this world, and I challenge you to name one, where there is any tax at all, except the 5 per cent tax on the notes of the Imperial Bank of Germany; and I will tell you now that the circulation of the Bank of Germany in 1898 and 1899, the two years previous to the increase from $66,000,000 to $112,000,000, which occurred in June, 1901, was just what it was afterwards in the years 1900, 1901, and 1902. Therefore it is self-evident that the tax had had no influence whatever upon the amount of the circulation. The demands of trade alone have determined the amount of bank notes in circulation.

There is no tax on the notes of the Bank of France worth mentioning, nor on those of Holland, nor of Belgium, Scotland, Ireland, or Canada. There was no tax imposed on the notes of the banks in the Suffold System, no tax on the notes of the State Bank of Indiana, State Bank of Iowa, State Bank of Missouri, nor the notes issued by the banks of Louisiana, and I challenge you to show where there has ever been a credit-currency system that has ever failed; if you know of any such case, now is your chance. [Applause.]

Mr. HITCHCOCK. I would like to ask the gentleman a question. Do I understand the gentleman to compare the banking power of the United States with the banking power of all the rest of the world very much in favor of the United States?

Mr. FOWLER. No, sir.

Mr. HITCHCOCK. Will the gentleman state what his statement was?

Mr. FOWLER. It stands about $20,000,000,000 to $30,000,000,000.

Mr. HITCHCOCK. Is there any country in the world that has the banking power of the United States?

Mr. FOWLER. No, sir.

Mr. HITCHCOCK. Is there any country in the world where the banking power has increased more in the last forty years than in the United States?

Mr. FOWLER. No.

Mr. HITCHCOCK. How, then, can the gentleman argue that this bond-secured currency system of banking, such as we have had in this country, is so detrimental to this country and its banking power when it has grown more rapidly than that of all the balance of the world?

Mr. Fowler. I want to go back to the question of the gentleman from Ohio [Mr. Burton]. He asked me if the provision made here for this rate of tax would not be a greater advantage to the banks. Banks are instrumentalities; by them the title to property is transferred from the time you begin to produce it until the time it is consumed. They serve for the transfer of the title of commodities produced by the farmer from the beginning to the end, precisely as the railroad carries the actual commodity, and every dollar of expense that may be laid upon the banking business of this country will be a tax upon labor, a tax upon the farmer. And you may just as well pass a law to compel the railroads of this country who carry the products of the farmer to build their cars out of mahogany as to raise your tax on circulation. It must all be paid by the farmers. You may as well say to the farmer in Texas that he must have a wagon with silver tires in which to haul his cotton to market as impose a high tax upon currency, because it is through the currency alone that you are going to move the crops of the farmer, and he will have to pay the interest that the banks charge him. The Texas farmers would have to pay for their silver tires, would they not?

Mr. Hitchcock. I would like to ask the gentleman how he can explain that the bond-secured currency of the United States is so bad a banking system when he makes the statement that the banking power of the United States is greater than that of any country in the world, and that during the existence of this bond-secured currency system it has grown faster than the banking power of any nation in the world?

Mr. Fowler. We do a great many things notwithstanding some things, you know. [Laughter.]

Mr. Hitchcock. Now, let me ask the gentleman another question. Did the banking power of the United States grow more rapidly before the establishment of the bond-secured currency than it grew after the establishment of the bond-secured currency?

Mr. Fowler. Well, that reminds me——

Mr. Hitchcock. I should like to have an answer to the question.

Mr. Fowler. I think probably the percentage was higher. I was going to be fair with the gentleman. I think if you will look it up you will find that the percentage of increase was higher before they had it. I was going to illustrate the point to save the gentleman. A man once said: "The population of our town in the last two years has increased 100 per cent." I said: "How many people did you have to begin with?" He said: "We had a hundred and now we have two hundred."

We did not have so many people—we did not have so much banking then. It would be easier to make a larger percentage then than it would now. But if you will take the banking of the United States and the rest of the world since 1890, there has been nothing like it in the history of the world, neither here nor abroad; and the banking of other countries has grown almost pari passu with our own, barring the exception of the fact that the country itself has grown so enormously that it demanded the use of this increased banking capital. Mulhall estimated the entire banking power of the world at $16,000,000,000 in 1890; we had about $5,000,000,000, or one-third; the total is now about $50,000,000,000, and we had $19,600.000,000, or two-fifths.

Mr. HITCHCOCK. I should like to ask the gentleman one more question, whether it is not a fact that 50 miles from the Scotch line, Scotch notes of the Scotch banks are at a discount.

Mr. FOWLER. Of course they are. They do not belong down in that country. But why does the gentleman ask me that question? Does he refer to this bill? Is he making a comment on my proposition? Does he not know, if he has read the bill, that the notes will be good everywhere without charge or discount?

Mr. HITCHCOCK. Because it has been the history of this country that when we have had banks of issue without security bank notes were at a discount as soon as they got outside of the town where they were issued.

Mr. FOWLER. That is a very interesting statement; but if the gentleman had been living and been in business in Cincinnati or Cleveland, in Detroit or in Chicago from 1830 to 1860 he would have found that the bank notes of the Suffolk system of New England were always at a premium of from 1 to 5 per cent, because that was a true credit currency system, every dollar of it redeemable in gold, and that is the only kind I am for. [Applause.] The same was true of what was called George Smith's money, of Chicago. It sold at a premium in every eastern city, and the notes of the Bank of Missouri were so good that they were extensively counterfeited in California in an early day—1849 and 1850.

Mr. COCKRAN. Will the gentleman from New Jersey [Mr. Fowler] allow me a question? I merely want to ask him, for the information of the committee, whether his plan proposes the issue of currency notes against deposits, or simply against the capital and resources of the bank?

Mr. FOWLER. Against the credit of the bank.

Mr. COCKRAN. And the resources of the bank?

Mr. FOWLER. Yes.

Mr. COCHRAN. Assuming that the banks availed themselves of the privilege, has the gentleman computed to what extent it would increase the actual circulation of bank notes in the country?

Mr. FOWLER. I think if this bill went into effect it would raise the reserves of the trust companies about $600,000,000, and that that amount of gold certificates and gold taken from the pockets of the people, from the cornfields and the wheat fields, would be replaced by the credit notes of the banks.

Mr. COCKRAN. Does the gentleman mean that the bank-note circulation would be increased by $600,000,000? I am merely asking the gentleman if he can give the committee a computation as to the amount?

Mr. FOWLER. I think that if we had a credit currency now, these $700,000,000 of bank notes would contract and disappear to a large extent, just as the clearing-house certificates have and just as the bank checks have disappeared. Just making a probable guess. I think that would decrease to-day approximately $300,000,000, and that $300,000,000 would come out again next fall, between July and January, to move the crops.

Mr. COCKRAN. I understand perfectly the elastic feature of the gentleman's proposal.

Mr. FOWLER. Yes; but I want to make that point, because the statement bears on the question of whether there would be an increase, or how much it would be.

Mr. COCKRAN. What I desire to ask the gentleman's attention particularly to is this: In the late panic he has said with a great deal of force that about $150,000,000 were withdrawn in New York City alone and secreted by the owners. I suppose the gentleman is aware that the only reason that amount was not quadrupled or increased still more largely was because the banks would not give up anything more?

Mr. FOWLER. Certainly; there is no doubt of that.

Mr. COCKRAN. If the depositors had had their way, the amounts withdrawn and hoarded would probably have been ten times greater?

Mr. FOWLER. Yes.

Mr. COCKRAN. Now, assuming that this system which the gentleman describes were in operation, that appetite for withdrawal would not be diminished if confidence in the solvency of the banks was destroyed and in the honesty with which financial institutions are managed.

Mr. FOWLER. There would be no such conditions in New York with the provisions of this bill in operation, as I tried to point out in the case of New England and the panic of 1857. The currency issue continued and rose because the people wanted something to pay their current accounts. The currency rose from $50,000,000 to $55,000,000 in 1857, and from $55,000,000 it dropped to $36,000,000 in 1858, and the deposits went from $37,000,000 up to $57,000,000, the two forms of credit changing places twice in as many years. That is the strongest illustration possible to prove the adaptability of current credits to the requirements of trade. The people want in panics something current, and if they knew that the notes were secured by a fund of $700,000,000, or any great sum, in Washington, no one would refuse one of the notes.

Mr. COCKRAN. The gentleman is speaking about a popular doubt as to the value of the currency. But suppose to-day a condition precisely similar to that of last October, where there was no doubt as to the value of the currency, but grave doubts about the solvency of the banks and about the statements put forth as to their condition. Suppose that condition was to be revived, how would this plan tend to check the appetite for hoarding which the gentleman says, if it had gone on unchecked last October, would have amounted to perhaps ten times the volume actually reached?

Mr. FOWLER. If they could convert bank credit into a note credit, they would take the note home and keep it.

Mr. COCKRAN. If the banks were authorized to redeem all their obligations by issuing currency notes, it would be very simple, but I fancy the gentleman would hardly go to that extent.

Mr. FOWLER. Yes; this bill provides that the board of managers—although they may have taken out an amount equal to their entire capital—the board of managers in a redemption district can permit an issue of any amount of notes they think necessary.

Mr. COCKRAN. The net result of this plan, then, is that under certain conditions the bank can discharge its obligations to its depositors by issuing additional obligations?

Mr. FOWLER. No; not additional. Just a moment, if the gentleman will pardon me. Not by issuing additional obligations, but simply by changing the form of the debt from one subject to check to one that is current.

Mr. COCKRAN. And so they pay their debts by creating new ones?

Mr. FOWLER. Not at all. They simply convert the debt into another form—it is the same debt.

Mr. COCKRAN. So that in its last analysis it is a plan which would bring about a millennium where every bank can discharge a debt by creating another. [Laughter.]

Mr. FOWLER. No, it does not do that. It does not create a new debt, but simply changes the form of the debt.

Mr. COCKRAN. That is it; it doesn't reduce or discharge the debt; it is a plan by which the bank is relieved of discharging its debt.

Mr. FOWLER. No, not at all; hold on a moment.

Mr. COCKRAN. Let me finish the sentence. As I understand it, this plan simply proposes that the bank be relieved of paying its debt and empowered to get rid of it by creating a new debt?

Mr. FOWLER. Not at all; their notes, every one of them, are redeemable over their own counter in gold.

Mr. COCKRAN. If that is what the gentleman means, it is one of the most comprehensive plans that ever came under my notice.

Mr. FOWLER. That was the intention. [Laughter.]

Mr. COCKRAN. I want to ask the gentleman if this is how the plan would operate. A bank depositor having $10,000 on deposit approaches a paying teller's window under such conditions as we had in New York last October and demands $10,000 in cash. The bank has already issued notes enough to equal its capital. Can that bank then discharge this obligation by issuing another note?

Mr. FOWLER. Not at all.

Mr. COCKRAN. That is what I want made clear. I thought the gentleman said it could.

Mr. FOWLER. They are not a legal tender to anybody. They are a legal tender to the Government and between the banks. That makes them pass everywhere current throughout the United States, but not a legal tender to any person, and they can not be forced upon anybody by a bank, certainly least of all others upon a customer.

Mr. COCKRAN. Then we get back to the original difficulty. The depositor, having made a demand for his money with a view of hoarding it, how does the bank get out under this plan any better than it could before?

Mr. FOWLER. Well, if the depositor did not want a note, he could get the money.

Mr. COCKRAN. That is, assuming the bank had the money.

Mr. FOWLER. I suppose if that ever happened they would do just what they do now; but with a free issue of currency, redeemable in gold and secured by $700,000,000 in the United States Treasury, what happens now would not happen then.

Mr. COCKRAN. That is it. Then your bill would have no effect whatever. [Laughter.] That is precisely what I feared.

Mr. FOWLER. As I have just said, if by any possibility it should occur, as it never has with the Bank of France, which has a perfectly free bank issue, and as it never happened in the Suffolk System, the banks here would do just what they have done and just what the

Bank of England does, which enjoys no credit currency at all, but simply issues notes against gold.

Mr. COCKRAN. The gentleman made that statement on his feet. It seemed to me to be slightly inaccurate according to my reading of the history of that institution. I understood the gentleman to say that Great Britain has shifted her currency to a system of credit currency at each emergency. I may be wrong about it, but my recollection is that the Bank of England never but once actually suspended payments——

Mr. FOWLER. Never but once?

Mr. COCKRAN. Never but once.

Mr. FOWLER. What did it do in 1847, 1857, in 1866, in 1890?

Mr. COCKRAN. The gentleman is speaking of the crisis following the Overend, Guerney & Co. failure in 1866?

Mr. FOWLER. I am speaking of the four instances in which they absolutely suspended and simply issued Bank of England notes, without reference to gold.

Mr. COCKRAN. There was one occasion when that actually happened.

Mr. FOWLER. Oh, four times; and they have prepared to do it twice besides those occasions, with the desired effect of stopping the panic.

Mr. COCKRAN. If the gentleman will allow me, I think we will not differ in a statement of fact about this. There were three occasions when what was known as a suspension of the bank act was authorized. One was in 1846; another in 1857. The third was at the suspension of Overend, Guerney & Co., in 1866, I think. I am speaking entirely from memory. The gentleman knows, because his familiarity with these subjects is undeniable, that under the law governing the Bank of England, outside of the £18,000,000 in notes which the bank may issue on the credit of the debt the Government owes the company for every £5 note in circulation, there must be actually 5 sovereigns or their equivalent in gold bullion in the vaults of the bank. Now, the suspension of the bank act, which occurred three times by permission of the Cabinet, on its assurance that the permission would be subsequently ratified by Parliament, authorized the bank to use the gold in its vaults which did not belong to it, but which properly was applicable to the redemption of outstanding notes, and which by that permission the bank was allowed to apply to the satisfaction of its ordinary bank debts. I do not think the gentleman will differ with me on that. That is, as I understand, the history if these transactions in England. On three occasions this permission was given. Once only it was actually used——

Mr. FOWLER. Oh, I did not yield the floor for a long discussion of this question.

Mr. COCKRAN. I merely asked the gentleman if he differs from that statement of historical facts.

Mr. FOWLER. They have suspended the bank act, as I recall it, four times, and they issued currency or bank notes without reference to gold coin in 1857.

Mr. COCKRAN. Does the gentleman mean that the suspension of the bank act authorized the unlimited issue of paper by the bank and not the mere right to use for its banking debts the gold that under the law was ordinarily applicable to redemption of notes? What was meant by suspension of the bank act?

Mr. Fowler. The right to loan and issue bank notes without reference to the gold——

Mr. Cockran. Was it not the right to use for its banking purposes this other gold, which it held merely as agent for redemption of outstanding notes——

Mr. Fowler. No; if you want to make a speech you can at some other time——

Mr. Cockran. I was endeavoring to get information.

Mr. Fowler. I have answered you two or three times.

Mr. Cockran. I hope the gentleman will allow me to give him credit for having made a most exhaustive statement and a most interesting presentation of his plan. If I have asked these questions, which were intended to test its practicability, it has been with an earnest desire to support it, because in general I am a believer in the principle of asset currency, but under stricter limitations than those the gentleman appears to have imposed in his bill, judging from the statement he has made to us here.

Mr. Ollie M. James. I would like to ask the gentleman a question. Take a bank that is chartered under the gentleman's bill, say with a hundred thousand dollars capital, and it issues $100,000 of currency. Now, I would like to ask the gentleman if, under the provisions of this bill, it is not within the power of a majority of the directors of the financial zone in which that bank is situated to cause that bank, that has already issued currency equal to the capital stock, to issue an unlimited amount of money, even to the extent of a billion dollars?

Mr. Fowler. The right to issue any currency they may see fit; but I suppose that if the bank put out one of its notes it would do so when it got another good note in its place, and it could only issue when it had first obtained the amount of gold to protect it, such as the law requires. If it was in the country, 15 per cent; if it was in the city, 25 per cent.

Mr. Ollie M. James. But back of that money would be only 5 per cent in gold.

Mr. Fowler. Back of what money?

Mr. Ollie M. James. Back of the additional currency issue. I am talking now about the additional amount of money issued over and beyond its capital stock.

Mr. Fowler. It is precisely the same.

Mr. Ollie M. James. I am speaking of the second and third issues.

Mr. Fowler. They have the same right to issue notes they would have to take deposits, for there is no difference between a deposit and a credit note; not a bit. In the case of deposit they must have the reserve, and in a case of the credit note they must have the reserve the same as the deposit.

Mr. Ollie M. James. But do you contend to the House a second issue of currency under the provisions of this bill would be as sound as the first?

Mr. Fowler. Absolutely immaterial which dollar came first; they are all equally sound, because they are all equally protected by the gold reserve and the guaranty fund.

Mr. Ollie M. James. I understand they are all equally protected by gold reserve, but the point is, do not you put it within the power of a majority of the directors in that zone the opportunity to impair

the character of money that is issued by giving the right to issue an unlimited amount of money?

Mr. FOWLER. Not at all. In the first place, the banks never issue any money, only current credits, which are redeemable in gold coin. The first safeguard is the gold reserve; the second safeguard is the guaranty fund in the United States Treasury; the third is the fact that the banks in each redemption district must first pay 10 per cent of the losses; the fourth safeguard is the capital of the bank and the character of the directors. There is no more reason for limiting the issue of current credits than there is for limiting the deposits of a bank upon the same conditions.

Mr. OLLIE M. JAMES. Now, say the banks of the country were capitalized at $600,000,000 and had issued $600,000,000 worth of currency, which is equal to their capital stock. They have deposited the reserve that the act requires. Now, the managers in each of these financial zones gives to each bank the right to issue 100 per cent more money; then you have $1,200,000,000 and have not but $600,000,000 of capital paid up; what becomes of the last $600,000,000 issued?

Mr. FOWLER. I do not quite follow the gentleman's question. But there is no money issued at all. It is strictly a question of issuing the bank's credit, maintaining always the same reserves against the bank's credit, for it is simply changing the bank's credit subject to check into current credit; that's all.

Mr. OLLIE M. JAMES. The question I put to the gentleman was this: Under the provisions of your bill the banks organized and capitalized at $600,000,000 can issue $600,000,000 in currency. They have issued that now. They have gone to the directors in the respective zones in which the banks are situated and have said, "We want to issue more money." I say it is within the power of four men out of seven, being a majority, to give to each bank in the United States the right to double its issuance of money, and instead of having $600,000,000 issued they might give them the right to issue $1,200,000,000, and then you would not have any capital stock which was the equal of the first $600,000,000 to help liquidate that last $600,000,000 when pay day came.

Mr. FOWLER. I do not think much of capital in banks at all. I think reserves and the liquid assets are the life of a bank. The Bank of France has only $35,000,000 capital and has outstanding $1,000,000,000 of notes, or about thirty times as much as its capital.

Mr. OLLIE M. JAMES. But there is only 5 per cent——

Mr. FOWLER. Just a moment and I will explain to the gentleman. I do not think as much of the capital as I do of the reserve and liquid assets. The Bank of France, for instance, has $35,000,000 capital, but it has $500,000,000 of a reserve. I presume it has real estate worth more than its capital. The gentleman seems to be laboring under this delusion, that a bank would issue a credit note for a thousand dollars without getting something back for it of equal value. In other words, if a bank received a deposit for a thousand dollars, does the gentleman think it will lend it out without getting something in return? A bank will no more give a man a thousand dollars of its notes than it would give a man some other man's deposit amounting to a thousand dollars.

Mr. Ollie M. James. The gentleman might make that argument as to banks if we did not have failures of banks and runs on banks every day, if we did not have depositors going around and beating at the doors of the banks and asking for their money; but our experience with banks shows that you have got to bridle their power, and especially so when you give them the right to issue unlimited money that the laborer must take and the farmer must take——

Mr. Fowler. Does the gentleman call that money?

Mr. Ollie M. James. You make it legal tender of the Government, do you not?

Mr. Fowler. Of course to the Government and to the banks, so as to make it good everywhere and not subject to discount.

Mr. Ollie M. James. Then, if it is not money, why not let the banks issue their checks?

Mr. Fowler. What difference is it to the depositor whether he has a credit at the bank that he can check for a thousand dollars or whether he has got the bank's note for a thousand dollars? Can the gentleman tell?

Mr. Ollie M. James. There is this difference: Instead of being the depositor that has this, it is the laboring man, and unless your money is good enough for the laboring man to put in his pocket and rest content with it, it is not good enough for the American people, and they will not be content to take it. [Applause on the Democratic side.]

Mr. Fowler. Does not the gentleman think that if a bank was run as it is to-day and loaned out its credit they would be as safe as they are to-day, especially with $500,000,000 or $600,000,000 in the guaranty fund to protect it? Does not the gentleman think the currency that is redeemed in gold is a safer currency than the national bank-note currency was when it was worth only 35 cents on the dollar?

Mr. Ollie M. James. I do not think any currency is good when the only thing you have got back of it is 5 per cent in realty and speculative assets, and will bring God only knows what when the crisis comes. Another question that I desire to ask the gentleman——

Mr. Fowler. The gentleman's last question or remark is based upon something that does not exist at all in the bill, and has nothing to do with this question.

Mr. Ollie M. James. But the gentleman does admit, however, if I understand him, that these four men, a majority of the directors of the redemption agency, could give to a bank the right to issue unlimited amounts over its capital stock. Is that true or false? Can they do that?

Mr. Fowler. It could issue currency just as it could take deposits, on precisely the same terms.

Mr. Ollie M. James. There is no provision of that sort in the gentleman's bill. Is there any such provision in the bill?

Mr. Fowler. Certainly; I say that they could issue currency precisely as they could take deposits; with the consent of the board of managers, in unlimited amounts, as they could take deposits.

Mr. Ollie M. James. You provide in this bill that the bank shall pay 2 per cent tax. Is that right?

Mr. Fowler. Two per cent tax on the circulation?

Mr. Ollie M. James. Yes.

Mr. Fowler. Yes, sir.

Mr. OLLIE M. JAMES. But that does not get into the Treasury of the United States and go to the people, does it?

Mr. FOWLER. Yes, sir; it goes into the guaranty fund, and that currency fund retires the demand notes of the United States Government, amounting to $200,000,000.

Mr. OLLIE M. JAMES. But, wait a minute. Now, you charge these banks 2 per cent tax for issuing this money, do you not?

Mr. FOWLER. Yes, sir.

Mr. OLLIE M. JAMES. And you put that into the hands of the Government as trustee, do you not?

Mr. FOWLER. Yes, sir.

Mr. OLLIE M. JAMES. Now, suppose a bank has issued $200,000,000 of money and it pays 2 per cent on it. Suppose it wants to go out of business. Now, has that bank got the right under this bill to go and demand from the Government the tax that has been paid?

Mr. FOWLER. Not a penny of it. It can withdraw its 5 per cent, which is a part of its required reserve, but no part of the tax paid. It can only withdraw its 5 per cent, provided it has no debts of any kind and the Comptroller of the Currency permits it.

Mr. OLLIE M. JAMES. Out of this fund of which this 2 per cent is part, do you not make that fund pay interest to the banks on their reserve, 5 per cent for deposits and 5 per cent to secure redemption?

Mr. FOWLER. Under the bill they get 1 per cent on that 5 per cent.

Mr. OLLIE M. JAMES. Do you not take from this fund that you say belongs to the Government and pay the banks interest on what you have had them to deposit as a reserve fund?

Mr. FOWLER. Not at all; the 5 per cent deposited is a part of the required reserves upon which now, if held with a reserve agent, the bank gets possibly 2 per cent.

Mr. OLLIE M. JAMES. I say that a provision in your bill does that very thing.

Mr. FOWLER. I do not understand it that way.

Mr. OLLIE M. JAMES. Well, I do.

Mr. SHERLEY. Mr. Chairman, I would like to ask the gentleman a question.

Mr. WILLIAMS. If the gentleman will pardon me. The gentleman from Kentucky [Mr. James] asked if in your bill you did not make the Government of the United States pay interest to the banks for part of this very reserve which was deposited by the banks in the Treasury of the United States.

Mr. FOWLER. I said that they paid them 1 per cent interest.

Mr. WILLIAMS. I understood you to say that you did not. I find here section 22——

Mr. FOWLER. The bill here provided that they are to be paid 1 per cent on the reserve funds in the United States Treasury.

Mr. WILLIAMS. I read:

SEC. 22. That every national bank may count as a part of its required reserve the amount it shall have deposited with the United States Treasurer in accordance with sections 11 and 14 of this act, and shall be entitled to receive interest thereon at the rate of 1 per cent per annum, payable annually on the 1st day of July each succeeding year.

Mr. OLLIE M. JAMES. That was my contention, and you said to the contrary.

Mr. FOWLER. I beg your pardon.

Mr. OLLIE M. JAMES. Then I misunderstood you, as gentlemen on this side have misunderstood you.

Mr. FOWLER. That is very simple. That refers to the 5 per cent of deposits, and 5 per cent of note issues with the Government, which are a part of their required reserves now in the banks, and the Government pays them 1 per cent on that reserve; but not 1 per cent on the 2 per cent tax that they have paid in.

Mr. SHERLEY. Mr. Chairman——

The CHAIRMAN. Does the gentleman yield to the gentleman from Kentucky?

Mr. FOWLER. Certainly.

Mr. SHERLEY. I would like now to ask the gentleman my question, and it is this: What was the reason for fixing the amount of capital stock of the bank as the limit of the amount of currency that can be issued by a bank in the first instance?

Mr. FOWLER. Simply an assumed figure, that is all.

Mr. SHERLEY. If it be true, as I understand the gentleman, that the subsequent currency issued by permission of the directors controlling that particular financial zone is based on the same credit as that which is first issued, why should this first limit be made, and why not let the banks issue without regard to the capital stock?

Mr. FOWLER. Because the banks have to have an organization. They want to take out a certain amount of currency, and we fix it at the amount of the capital, because they are required to put up 5 per cent of the amount taken out. Now, they are not compelled to take it all out. If, subsequently, they should consult the managers who are supervising the redemption district, they could take out additional currency. So that was simply a question of administration.

Mr. SHERLEY. If I understood the gentleman right, these issues that may be made, up to a sum equal to the capital stock of the bank, and those they may issue by the permission of these directors in the financial zone will be based upon the same credits and require the same reserve in the banks behind them. Now, is that true or not?

Mr. FOWLER. It is true, but I want to qualify. You say the same credit. I would not say the same credit, but I should say similar credit.

Mr. SHERLEY. I do not mean the same credit, in regard to any particular credit, but, as I understand it, both of them must have a reserve of 15 per cent——

Mr. FOWLER. That is right.

Mr. SHERLEY. In the country, and 25 per cent in cities.

Mr. FOWLER. That is right.

Mr. SHERLEY. And that is all upon which they are issued?

Mr. FOWLER. Except that it is the credit of the bank, and of course no bank is going to incur a debt which it must pay without taking something in return for it. I know the gentleman understands this, but there has been some talk, and the gentleman is just on the point, and so I make that statement.

Mr. SHERLEY. I understand that, but if there is no difference between these notes, in the security that lies back of them, between those that are issued as a matter of right by the banks and those that are issued by permission of the directors, why have the permission of the directors at all? And if the theory of your bill is based on the

idea that your issuance will be in response to trade demands and that there will be absolute redemption when the condition of the trade prevents the notes staying out, because banks must redeem in gold upon presentation, then why have you not simply taken your limit off and left it to trade conditions to say what shall be the volume rather than to the directors in a zone?

Mr. FOWLER. The gentleman states the principle with absolute accuracy. That is exactly my position.

Mr. SHERLEY. That is not your bill, as I understand it.

Mr. FOWLER. But you have to draw a bill with some view to passing it, and also recognize rules of administration.

Mr. SHERLEY. If I understand the gentleman, he has compromised with his position to the extent of limiting the first issue to the amount of the capital of the bank.

Mr. FOWLER. That is all.

Mr. UNDERWOOD. May I ask the gentleman a question on this point of redemption? I understand the basis of the gentleman's bill is the fact that there shall be 5 per cent of gold to redeem this outstanding currency.

Mr. FOWLER. Oh, no; the reserves against the bank notes are precisely the same reserves that are held against deposits. There is no difference between the two.

Mr. UNDERWOOD. But does not your bill provide that there should be 5 per cent of gold for the issuance of these notes?

Mr. FOWLER. No, sir.

Mr. UNDERWOOD. How much gold do you hold to redeem these notes?

Mr. FOWLER. Whatever the law requires now. If it is a country bank it must have 15 per cent, with the privilege of carrying some of it in reserve cities. In the central reserve cities it is 25 per cent in cash, and in those cities that are reserve cities and not central, 25 per cent, with the privilege of 12½ per cent in the other cities.

Mr. UNDERWOOD. The gentleman referred very eloquently in his speech to the fact that Mr. Cleveland, when he was President of the United States, saved the country from a panic by redeeming the greenbacks. I so understood the gentleman.

Mr. FOWLER. No.

Mr. UNDERWOOD. You did not say he saved it from a panic, but he saved the situation.

Mr. FOWLER. He saved the credit of this nation when he gave free silver its first stunning blow. [Applause on the Republican side.]

Mr. UNDERWOOD. Just one minute. What Mr. Cleveland did was to attempt to stop the endless chain—the run on greenbacks. At that time we had $347,000,000 in greenbacks out, and we had $100,000,000 of gold in the Treasury, and yet the people of the country, not having confidence enough in the fact that we had gold, one for four, in the issuance of greenbacks, had a run on the Treasury and started the endless chain; and would not we do the same with the banks when they only had one-sixth of gold to secure the notes? What is the difference?

Mr. FOWLER. The Government has no liquid assets with which to pay anything; but a bank, if it is a commercial bank, should practically have all of its assets in liquid shape.

Mr. UNDERWOOD. But the Government has the whole power of taxation.

Mr. FOWLER. What is the power of taxation worth in a panic?

Mr. UNDERWOOD. It is good to raise gold, as it did raise gold. It was good enough to get gold.

Mr. FOWLER. No; it did not get gold on taxation; it raised it on the credit of the nation, with a promise to pay.

Mr. UNDERWOOD. What was the credit of the nation based on but the power of taxation? There would not be any credit for the nation if it did not have that.

Mr. HARDY. Just one question. I think there is a misapprehension as to a portion of the gentleman's bill. I understand that the first and general underlying proposition is to place the deposits and currency of the bank on the same footing?

Mr. FOWLER. Yes.

Mr. HARDY. I understand the holder of a deposit certificate and a currency bill of the bank may go to the bank and demand gold?

Mr. FOWLER. Yes.

Mr. HARDY. If the bank fails to pay, the Government guaranty of $500,000,000 steps in and takes up the demand?

Mr. FOWLER. Yes.

Mr. HARDY. If the bank continues to fail it goes into the hands of a receiver?

Mr. FOWLER. Oh, no; you can not resort to the Government guaranty fund in any case until the bank has actually failed.

Mr. HARDY. I understand.

Mr. FOWLER. But the gentleman made a statement that implied that you could resort to this in case it made a loss.

Mr. HARDY. No; in case of failure only.

Mr. FOWLER. The profits, reserve, and capital must all be wiped out and the stockholders would have to be assessed before the guaranty fund could be touched.

Mr. HARDY. I understand it as the gentleman does. Now, I want to ask this question: Is there any reason why the debt of the bank on its currency issue should be more sacred than the debt of the bank to its depositors?

Mr. FOWLER. Not at all. I do not make them so.

Mr. HARDY. Your bill is designed to put the depositor and the holder of the currency on the same basis?

Mr. FOWLER. Yes; and with a fund at Washington that guarantees both alike.

Mr. HARDY. And only in case of failure?

Mr. FOWLER. Yes; without preference then.

Mr. FORNES. Will the gentleman from New Jersey yield to me for a question?

Mr. FOWLER. Yes.

Mr. FORNES. The question I desire to ask is this: Did I understand the gentleman's objection to a central bank was the vast extent of our territory as compared with those territories where they are established—in England, France, and Germany?

Mr. FOWLER. That was only one observation I made. There were several others. I would say that the main objection to it is the fact that in this country of ours there is a political situation that is un-

matched by any other country in the world, and I should say that the political situation is the most serious objection of all those made.

Mr. FORNES. Does the gentleman say that owing to the political situation we could not use the same financial institution that has proved to be so satisfactory in other countries?

Mr. FOWLER. I think that if there was a central bank in this country the power of the bank would be sought by political parties, and I am afraid it would be used by political parties for political purposes.

Mr. FORNES. Assume that you could take the power out of political influence?

Mr. FOWLER. Is it possible to do that in this country?

Mr. FORNES. And suppose on account of the vast extent of the country you establish ten branches, each branch to have the power of the central bank, these branches to be established in designated cities like San Francisco, New Orleans, and so situated throughout the land that they would come into the same class that the gentleman's system proposes?

Mr. FOWLER. It is impossible for a central bank, through its branches, to reach the customers, because the gentleman must remember that when you have a central bank in the United States it is never going to do any direct business.

Mr. FORNES. Suppose it did the business of a general clearing house?

Mr. FOWLER. How could that bank or any of its branches give relief to a man way up in the pineries of Washington, where they have a small bank and want some currency or want to convert their credit subject to check into a current credit to meet a pay roll with?

Mr. FORNES. He could reach the branch at San Francisco, which possesses the same power as the central bank.

Mr. FOWLER. How long would it take him to go down to San Francisco to get the credit or cash for his pay roll? This would be accomplished only by rediscounting some of his paper, when he could just as well convert it himself into a current credit.

Mr. FORNES. He could do it by having the exchanges the same as they have in the banking system through what you may call the "clearing-house" system.

Mr. FOWLER. How long would it take a man to go from some particular point, two, or three, or four hundred miles, to your clearing house?

Mr. FORNES. How much longer would it take him to go under the central-bank system than under your system?

Mr. FOWLER. He would not have to go at all. He would simply wire the managers of the district or call them on the phone and get back an answer in an hour or less, possibly, because they would have his reports on file and would know all about him.

Mr. FORNES. But suppose the central-bank system branch would have two directors in every branch city where it is established, would they not understand the condition of that country and would they not be able to give an answer by wire, as under your system?

Mr. FOWLER. I think it would be very impracticable and be very far removed from the business of this country, as compared with the proposition that I have presented.

Mr. Fornes. You think it only impracticable, but it might be possible?

Mr. Fowler. Oh, it might be possible to carry on the business that way, but not at all as desirable.

Mr. Hardy. I would like to ask the gentleman a question. In case it should be found that it would be impossible to so change our system as to retire the bond-secured currency and issue in its place the convertible currency the gentleman speaks of, or the credit currency, would it not be a step in the right direction if some law could be passed whereby the deposits of banks were rendered absolutely secure and guaranteed by the Government, as provided in the gentleman's bill, even if that were all that could be done? In other words, would it not be a step toward the gentleman's ideal conception if every deposit in every national bank was rendered absolutely safe by the guaranty of the Government?

Mr. Fowler. I do not approve Government guaranty, but if we could compel the banks to guarantee, it would be advantageous, but the trouble is there is no uniformity in our banking, and some States require no reserves, some of them 1 per cent or 4 or 5 per cent, and this interchange of national bank notes into trust companies for the purpose of locking them up is undermining the banking of this country, and we want it uniform, and we want enough reserves in gold to make our credits absolutely sound.

Mr. Hardy. Now, the point I want to get at is this, if the law was passed that all national banks shall have a guaranty deposit, won't that unify the system of national banks and cause all other banks to come into the field of the national-bank system; and when they have done that, won't all your credit currency be a thing not needed, practically, for the deposits are made absolutely secure?

Mr. Fowler. Oh, no; you need currency, because you can not use the gold certificates and other reserve money to handle your crops and make up your pay rolls.

Mr. Hardy. As I understand, the great stayback of your proposition is that your currency and deposits would not be liable to be questioned because guaranteed by the Government.

Mr. Fowler. I do not get the question of the gentleman.

Mr. Hardy. As I understand, the reason why there would not be likely a run on your banking system would be the fact that every man would have confidence in the guaranty of the Government.

Mr. Fowler. Certainly; the $700,000,000 guaranty fund.

Mr. Hardy. Whether that applied to the currency or to the deposits?

Mr. Fowler. Yes.

HEARINGS ON THE FOWLER BILL (H. R. 12677).

STATEMENT OF THE HON. LYMAN J. GAGE,

Ex-Secretary of the Treasury.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES.

February 19, 1908.

STATEMENT OF HON. LYMAN J. GAGE, EX-SECRETARY OF THE UNITED STATES TREASURY.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Wednesday, February 19, 1908.

The committee met at 11 o'clock a. m., Hon. Charles N. Fowler (chairman) presiding.

The CHAIRMAN. I present to you ex-Secretary Gage, who has come here upon invitation to address us relative to proposed legislation and who will proceed to make his statement, and after he has finished he will be very glad to answer any questions that the gentlemen of the committee want to ask him.

Mr. GAGE. Mr. Chairman and gentlemen, I do not know but I ought to apologize to you for coming and thus intruding upon your time. I think perhaps I ought to apologize to myself, for I was free from trouble and cares of all kind, with no responsibilities resting upon me, and here I now am mixed up in something that only concerns me from a general patriotic point of view. It only concerns me, as I say, as a citizen, and as a man who loves his country.

We have reached what I think is the most important period in our history for forty or fifty years, and that is the determination of the question, the solution of which depends very largely upon the body of men composing this committee. So I think if there is anything that I can contribute, either to show you by my ignorance what you ought not to do, or by my experience and correct reflections, if they are such, what will help you see what you ought to do, then in that case I believe it to be my duty, not my pleasure, although there always is a degree of pleasure in performing one's duty, to accept the invitation of the chairman to come here and speak the truth as I see it.

I question how I ought to proceed in what I have to say. All of you know, if you know about me at all, that I am not a trained speaker, and I have been at a loss how to proceed in presenting the ideas that I have in mind.

The philosophy of finance, the metaphysics of currency, I have only studied in a way. The convictions that I have reached are the result of certain experiences in my life, the observations which I have made, and the reflections which were the natural results of that experience and observation. These have to a degree been confirmed by such reading as I have been able to indulge in, of the works of those who are wiser and understand more thoroughly the principles and philosophy of the subject in question, and so I have concluded, at the risk of appearing to be very simple, if you will

indulge me, to take you as briefly as I can over the road of observation and experience and reflection which I have come, that you may judge thereby of the merit that attaches to what I may say. I see two gentlemen here at least who will, quite likely, follow me, if I give them time, who will speak of the matter from higher standpoints of what I would call the philosophy or the metaphysics of money, finance, and banking. So if you will let me follow my simple road, it may sound a little personal, but I can not help that.

In 1854, a lad of 18, it was my very good fortune, as I regarded it then and as I regard it now, to become employed in a little bank as a junior clerk in the State of New York, in a small town near the center of the State. The bank had $50,000 capital. It had about $75,000 in deposits, and it had a right under the law to issue $50,000 in notes. I observed that the business of the bank was to guard its deposits with proper reserves in money, to protect its deposit line, and to guard its outstanding notes with a proper reserve to protect them when presented for redemption. There were two places of redemption for the notes. One was in the town where the notes were issued, the bank's counter; the other was in the city of New York. I observed shortly that the bank was exceedingly cautious about the use that was to be made of the credit that the bank gave out to its customers in exchange for the obligations that it took from its customers.

As I say, like all banks, it was restrained in its operations by the limitation of its reserve money, and when the relation of things was about normal or satisfactory, it could not loan, if thereby it should be obliged to take its reserve money and hand it to a customer in exchange for his obligations, for that was giving cash in exchange for credit. I found it was the business of the bank so far as possible to give credit in exchange for credit, and the credit made by the bank to the person who gave it his obligation being put upon its books was likely to be transferred from one to another through the instrumentality of checks, and so not peril or prejudice by exhaustion the cash resources. Such credits therefore were fairly given. But the same rule applied to the issue of its notes.

A borrower came to the bank and wished to make a loan. He could not avail himself of the result of the credit if placed on the bank's book and availed of by his checks, which would be transferable in the field of circulation which limited the bank's business horizon. In such a case circulating notes or currency could be perhaps utilized for the borrower's purpose, and perhaps to the advantage of the bank, and the question always arose, "What do you want to do with the proceeds of this credit?" If the man wanted to borrow and buy securities with the money, if he wanted to borrow and pay a note in the next town, the bank would not issue to him its notes; it would not give him credit upon its books. In short, it would not exchange its credit for his, because it was easily seen that through the instrumentalities which he would use, whether by his checks or by the notes which they would give him, he would attack and deplete by so much the cash reserve which supported and protected the whole line of liability. The notes would attack the reserve situation by going strictly to the redemption agent in New York and there be redeemed. His check would exhaust the reserve by being collected in the next town where he gave his check in payment for his notes.

But if it appeared, as in very many cases it did appear, that the man wanted currency for some of the commercial or industrial uses of life, like the payment of employees, like going up into the "north woods," as we called it then, to pay men for getting timber and doing a logging business, or going into Indiana to buy wheat, or into Wisconsin for that same purpose, or into Ohio for the purchase of wool, and all those miscellaneous purposes which go to make up the products of industry, and start them forward to market, then by the power that the bank had to issue its unissued notes, which might still lie unused, the bank was glad to make that transaction, and the money (bank notes) was available to the man if his credit was good so that the bank was willing to take the risk. But, so jealous was the bank as to the use of these notes that it was my duty, as a junior clerk and general all-round assistant, to take the bank's notes which were brought out from the vault, preparatory to giving them to the borrower, and take a small stamp which made the letter E or X or Y, no matter which, and stamp every note and then make a memorandum upon a book kept for that purpose of the date and the amount of the issues and how marked, and as those notes came in for redemption to watch the average time of circulation which they would enjoy.

I did not perceive the relation of things so very clearly at that time, because I was young and did not reflect so very much. Then I went to Chicago a year and a half later, and after two or three years of knocking about, I again found myself in a bank operating under a State charter, clothed with the powers of a trust company and savings company, but with no power to issue notes. I found the situation there something like this: A great variety of banks and a great variety of currency; there were notes in circulation issued by certain banks specially chartered by certain States, doing business and issuing notes. There was the State of Illinois banking system, which was called a system of free banking; that is to say, any five persons, I think it was five, could associate together, start a bank, notify the auditor, put up some State bonds of any of the sovereign States of the United States, and have issued to it currency notes, strictly in accordance with the formality that exists regarding the national-bank notes at the present time.

These banks so chartered and organized were required to redeem their notes at their counter and not elsewhere, and, with a very wise or discriminating regard to the responsibilities of redemption by the organizers of the banks, the places chosen for the organization and location of these banks were generally so obscure that nobody would dare go across the country with the notes to get them redeemed. And I believe this actually resulted in the course of that business, to wit: A group of men putting together $100,000 would organize a bank; they would buy the bonds and deposit them with the auditor of the State, draw out the money or notes—they were not in the business of lending much money, the places where these banks were situated didn't have much business to do generally—and they would take the notes and go to the various markets, like Chicago or elsewhere, and buy commodities, wheat, corn, flour, ship it to New York, turn it into the money of the country, take the proceeds, buy in the market more bonds and start a new bank by putting up the bonds, get some new currency, and do the same thing over again; so that with a capital of $100,000 a man or party of men could have about six or

more banks and be drawing interest on $600,000 or more bonds. But they were brought forth as a bank note, secured by the sovereign bonds of a State, and people took the money, and those taking it passed it off on somebody else. No one would go to present it for redemption at the place it was issued.

I remember an incident touching upon that particular point. The institution to which I was related, having no note issue and being inimical to this principle of currency, organized a raid upon these various banking institutions, so-called, that is to say, it sorted their notes and by special messengers sent the notes home for redemption in gold. I remember specially being very diligently occupied for some days in sorting out the notes for a particular bank until we had accumulated some $25,000 or $30,000 of the issue of the bank of Rushville, I believe it was, and three men, with about $30,000 of that money, started for the bank to get these notes redeemed in gold, or bust the bank. They were gone about ten days. Anxiety sprang up in the minds of the officers of my institution as to what had become of these men and the money—particularly as to the money.

At the end of about ten days the men returned with the notes they had taken away and explained that they had taken the prescribed route; they had gone by rail to a certain place, and had taken a stage and had gone to a certain other place; that from thence there was no stage line over to the other place where the bank was, and so they had hired a private vehicle to take them over there, but they were strangers and were under suspicion, and somebody smelled out the object of their visit and they were informed by a committee of men that if they came down there "to break their bank" they had better start back, because neither they nor their money was safe on any such kind of an errand as that, and so they prudently returned. I found then that a bank note, even if secured by the bonds of a sovereign State, was not naturally a virtuous currency, nor was it naturally responsive to any of the requirements of business at all, but it was issued and it operated upon considerations entirely distinct and separate.

Now I found that there was another institution, or rather individual who ran a bank, and his name was George Smith. He came from Scotland, and I presume had a training in the Scotch system of banking. He was a "canny" man, as the Scotch are, careful, judicious, conservative, and wise. He had a limited amount of money, probably $100,000. He found himself in a community rapidly developing, for the comparatively little city of Chicago was the center where the market roads from the country naturally focalized and the products of the country were coming in to be sold and exchanged preparatory to being shipped by the water routes to the east. He found also that there was a considerable activity in the way of building around the city, it had its little factories, and its warehouses, and its dwelling houses, and so forth. He found an absolute poverty in the means of circulation. Some gold had been brought into the country and circulated, and some of those notes I have been speaking of were circulated, but it was as expensive to the banks to get these notes as was gold itself; that is to say, they had to give value to get them equivalent to what they would have to get the gold, only they could get them easier.

George Smith conceived the idea that as his credit was established, as he understood the business of banking, he could serve the community usefully and with profit to himself, the last probably being his chief motive—a motive that animates most men. He had no power under the law to issue notes. But there are ways around a law oftentimes, as we have found in our experinece. So he bought the charter of a bank in Georgia, called the Bank of Atlanta, which had a right to issue notes. It had no capital; it was inert and substantially dead. He bought that charter, organized the bank, and issued to George Smith from time to time the notes of the bank in exchange for his obligations, I presume—I never knew the real inwardness of it—and across the back of these notes he stamped these words: "Redeemable in gold coin at the office of George Smith in the city of Chicago." So he acquired all of these notes, which cost him nothing except his credit with the Bank of Atlanta. These notes he loaned to the public to the amount of something like, at one time, from the best advice that I can get, $1,500,000. Those notes were the most popular and held the highest degree of confidence in the minds of the people of any currency extant and passed current in that district of the country tributary to the city of Chicago. He continued this business for a number of years, then the shadows of the civil war grew black and ominous, and, canny Scotchman, as I said he was, he smelled danger from afar, he liquidated his bank, he redeemed all of his notes, he paid all of his depositors, and he went home to Scotland to enjoy the fortune that he had either well or illy earned by ministering to the industries and commerce of a great State.

That was a lesson to me in contrast to the other lesson in a State bank secured circulation. I saw a credit currency issue, with proper assets behind it, containing only the elements of credit, was an effective, useful, and economical agency in the industrial exchanges of the people.

There was another instance near by that enforced upon me the same proposition. That was the Bank of the State of Indiana. The Bank of the State of Indiana was in existence in those times; Hugh McCullough was president of it. It was chartered by the State; it had eighteen branches, and at all of those branches it did business, the central office being only the administering bureau for all. It had a right to issue notes, without putting up any of the bonds of anybody, to the amount of twice its capital stock. It did business and performed for many years in the most safe manner the functions of banking in the State of Indiana to its great advantage. It was never able to put out conservatively and safely more than half of the limit of circulation that the law gave it, and the Bank of the State of Indiana notes were recognized in the New York market. The notes issued under the secured system of the State of Illinois were tabooed, except in the brokers' offices, at a discount, in the city of New York and all commercial centers.

I became acquainted with the fact that the State of Louisiana had a system somewhat similar to the bank of the State of Indiana; that is to say, they had a credit note system issue, requiring the banks to hold against the note issue 33⅓ per cent, I believe, in specie and two-thirds in good commercial bills, not stocks or bonds, and for many years that bank performed its function. But those banks under the

Louisiana system were finally taxed out by the desire of the Government "to get revenue," if that was the real desire of the Government, and retired—that is to say, redeemed—all their notes, organized under the national law, and continued their operations as banks in a manner much less effective to the general community than they had performed it before Congress tied up their capital by compulsory investment in securities, viz, United States bonds, to become hypothecated 1,000 miles from home. The banks of the States of Missouri, Iowa, and Ohio were similar to the Bank of the State of Indiana. It was a credit currency system.

As a clerk in this bank in Chicago, as time went on, it was my duty to sort the money, to keep the best, pay out the poorest. That is human nature, too. The money we saved was the money of the Bank of the State of Indiana in our tills, the Bank of the State of Ohio, and of Iowa, and New England money, so far as we desired to have a reserve of currency. We were on a specie basis at that time nominally, but there was very little gold in the reserves of the banks. As I said a few moments ago, in the beginning the public, especially the State of Illinois, thought it had the model system of notes secured by bonds of the sovereign States; but a change came over the situation. State bonds began to depreciate in value in the market. The banks that I have described in the State of Illinois secured by these bonds, one after the other, unable to find gold for exchange for its notes on the first presentation of any volume of these notes, straightway suspended payment. Under the law the banks were closed out and the auditor sold the securities for the benefit of the note holders. These notes were in considerable volume and passed through the hands of our bank, and day after day we sorted these notes with reference to a schedule which showed the value of the securities of each bank; we sorted out and kept those that we considered the best and those that were the poorest we paid out. And that was human nature, anybody would have done it. The net realization to the note holders under that system of the State of Illinois, as a result of liquidation was somewhere between 40 and 50 cents on the dollar.

The loss to the note holders under the George Smith method and the Louisiana system, the Bank of the State of Indiana, and Iowa, and Missouri and Ohio was nothing. And so it came to be borne in on me that what is called a credit currency, which enabled a bank to give its credit in exchange for the acceptable credit of its customers, properly guarded and protected, and based upon sound banking, with honesty and integrity upon the part of the administrators of the credit, was the truest, best, most adequate, and practical system of banking and currency as compared with any other. Now, I think I am through with the sketch I have indulged in. I indulged in it simply for the side lights which it may furnish to the consideration that you have got to give to the great questions of banking and currency, which it is your special duty to consider and determine.

Now, afterwards the Government wiped out all these banks of issue, good, bad, and indifferent, by taxing them out of existence and introducing the national currency system which is now in vogue. So charged was I by the influences of these things I have been speaking about—to wit, the principle of credit currency—that, as a national

banker, when I came into the position of control or substantial control of a large institution I would not issue notes under the national-bank act. The reason why I would not do so was that I would not secure part of my liabilities in the form of notes by especial pledge of the property of the bank to the prejudice of those whom I owed on book account. The profit on circulation was not so very tempting. If it had been, perhaps I would have fallen like most all my friends did.

Now we have got the system as is it. Is it an effective system? Does it meet the needs of the country? Is it responsive to practical needs, and is it in accordance with the true scientific principles which ought to govern banking, and banking functions? They say everything is relative, and a comparison is the best way to show a fact. Therefore I will venture to refer to the historical operations of a great bank in another country—the Bank of France—and ask you to look at its history and our own.

The Bank of France was established about the year 1803, I believe. It has the power substantially unlimited of note issue. Its credit notes in circulation have always been four or five or six or eight times its liabilities on its books. Its notes always circulate as money in the community. It continued undisturbed through the revolution of 1830 of Louis Napoleon, which disturbed the political condition of France to its center; it went on undisturbed in its operations and performed its functions, viz, to give its obligations in exchange for the obligations of those engaged in commercial and industrial pursuits, uninterrupted by the coup d'état by which Napoleon III made himself Emperor, it came into the period of 1870 and 1871 when it saw its country devastated—nearly ruined. France was at the close of an exhaustive and futile war, its enemy was in possession of its capital, the country was under duress to pay a thousand million of dollars of war indemnity. It witnessed the rise of the "commune" with its régime of bloodshed, murder—of course all industries suffered—commerce was afflicted, and misery fell upon many people, especially in the besieged cities, but the bank continued its function uninterrupted, without any panic. It did suspend specie payments on its notes, out of prudent considerations, to control or to a degree put a limit upon the foreign export of gold, but at no time during this period of which I have been speaking did gold in France or on the Bourse at Paris, command a premium so high, measured in the notes of the Bank of France, as ordinary paper currency commanded in this country at the close of the most prosperous years the country ever knew.

These things are painful contrasts, and they need to be inquired into. Is the national system of currency and banking as now operating an effective system? It is not inviting to the public at large, for not more than half of the banking institutions and those who desire to engage in that business have embraced the provisions of the national banking act. We have 6,500 national banks organized over the country. They are each independent institutions, with no natural power of attraction toward each other by any law of self interest. On the contrary, as quick as a crisis comes, they become charged with the influence of a mutual repulsion, and each one by the instinct of self-preservation, or a narrow self-interest, begins to pull out of the community the elements of strength for itself. They refuse, as is demon-

strated completely without any illustration—they suddenly refuse to perform the functions of a bank which is to give credit in exchange for the credit of the community. They will no longer extend their credit. On the contrary, they insist upon the liquidation of credits due to them from the public, and the ruinous loss to the industrial classes—those who produce from the soil, those who work in the factories and those who are employed in common labor—can not be measured by any rule that I know of. We only know it is enormous and that the losses and adverse consequences which are so plain will for some time be continued.

Now, is there not need for thorough revision? Do we not want to put the banking and currency system upon the basis where, if you please, the creator of it will be willing to trust it for a day or two? This system, created by the Government, supervised by the Government, in existence for forty-four years, with plenty of opportunity to observe its weaknesses and to strengthen it at points where it was weak, has been held out virtually by the Government to the people as entirely worthy of respect and confidence; and the people, to the extent of four thousand five hundred millions of dollars, as evinced by the debts of the national banks have taken this representation, or this implied representation, as valid and have intrusted their interests to that extent to these institutions. Has the Government set the example of trust and confidence in these institutions it created? No. That is patent, manifest, and notorious—never to the extent of one dollar; it will not even take a certified check on the best of its creatures in payment for a revenue of $100 coming to it from the most responsible citizen. I think the system ought to be revised from the beginning—that is to say, in all the important elements that constitute its foundation.

I shall get along in a few minutes——

The CHAIRMAN. Do not mind the time.

Mr. GAGE. I shall get along to a point where it will appear, and I may as well anticipate it now, that I am opposed to the measure originating in the Senate, which is offered as a curative of the evils and weaknesses that inhere in the system. It will appear further that I regard the bill before you known as the "Fowler bill" as a very comprehensive measure, containing in itself evidence that the author understands clearly and explicitly the principles which underlie the banking and currency relations of the United States, and has brought forth a measure which in contrast to the one offered in the Senate does reach to the fundamentals. We know that something fundamental is necessary—something which will make the national banking system (if we want to keep it going) substantially uniform and more effective in its application to the country's needs; but before any measure that reaches fundamentally to a fine foundation can be inaugurated and adopted some difficulties and embarrassments must be gotten out of the way, and these embarassments lie, in my opinion, in the relation of the Government itself to the business of the community as represented in the banking system.

This bill, if I may anticipate what I may say later, especially provides that, and by an easy method, without expense to the people, cuts out as far as possible these artificialities which hinder and obstruct any possible uniform national system of banking and currency. What are those artificialities? The artificialities that I

speak of not only impair the general structure of banking and currency, but they also embarrass or are likely to embarrass the Government itself. They were born in the civil war. Of what do they consist? First, the legal-tender note—the greenback. If it were necessary to issue them in the beginning, they should long ago have been retired. They were false to the economic requirements of a true currency. Legally equal to gold as a cash reserve for banks, we witness the anomaly of a debt obligation issued by the Government made the legal basis for debt obligations issued by banks to an amount four times as great. They thus weaken the foundation of metallic money, on which the fabric of our whole credit system must finally rest. It is perceived that noninterest notes payable on demand are an immediate economy over time obligations charged with interest, and this benefit the people refuse to surrender. And of course we know that there is a sentiment attaching to the greenback—and the sentiment is a high sentiment, it is a good sentiment, it is a beautiful sentiment—but sentiment and business are not fellow-travelers. They go on different platforms. Not that business should fall below honorable and true sentiment at all, but justice and truth are the true basis of business—not poetry or philanthropy.

Now observe our system of bank notes. It is a device that we brought in at a time of distress to create an artificial market for United States bonds. Their issue, volume, and use bear no relation to the true law which should govern in the field where paper money performs its proper functions.

Now, the result is seen in two directions. In the first place, it has artificialized the price of Government bonds to an extent of at least 20 per cent, measured by the world's standard of value, as found in a free and open market where similar securities are bought and sold. As an incident to this artificialization the Government has become the guarantor of payment for some seven hundred millions of notes issued by more than 6,500 so-called national banks. This is a false relation in my opinion. It ought not to exist any more than the Government should guarantee insurance policies or the notes of customers that a bank has taken.

Further, by the drift of events, and through political pressure, there has been injected into the channels of our circulation some six hundred millions of silver now possessed of its natural commercial value, measured by gold, of about three hundred millions, but maintained at parity with gold through the Government's pledge to maintain such a parity balance. Looked at from the Government's side we have here a direct or contingent liability consisting of United States notes, $346,000,000 silver currency, parity $300,000,000, national bank notes, $700,000,000. Of course this liability is not menacing or embarrassing to the Government at the present moment of time, and is not likely to become so, provided we can continuously avert foreign or domestic wars, and provided, further, that the channels of trade where money circulates, can be to a large degree monopolized by the greenbacks and by silver, or silver certificates. In such a case the Government may not at any early period experience any particular embarrassment, but consideration ought to be had to this, viz, we recognize that a strong metallic chest and an unimpeachable credit in the Government is as essential to success in war as is our Army and Navy.

To the support of the Army and Navy, with but little grumbling, we contribute substantially a hundred million dollars a year for each, but for the economizing of a few millions we fail or refuse to put ourselves in the strong position of financial defense from a Government point of view and drift along in a position which it must be confessed is, and everywhere else in the world is, charged as being a weak and inexcusable position. It is, however, to the reflex effect upon our general banking and currency system that I especially direct your thought. I have said that the path to a more perfect condition in banking and currency is blocked by the artificialities developed by our financial legislation.

Now, there would be no proper cause for complaint about it being blocked if as in the minds of many people it is conceived to be—that the business of banking goes on by the grace of the privilege granted by the Government to certain favorite persons, who exercise the function of banker to exploit the people. If that were the case, the more obstacles, restrictions, and repression the better. When a correct understanding takes the place of these misapprehensions, then it will be perceived that what hinders, restricts, or prevents the just, economic exercise of the banking functions interferes to embarrass an agency which, next below production and transportation in importance, is a minister to that industrial life wherein our material prosperity must be found. Now, in every other relationship existing between men, we know that there are natural laws which spring up by virtue of that relationship. They have to be discovered and recognized, and if obeyed they bring in peace and happiness. It is just as true that in the field of economics and in the field of banking and currency and in finance generally there is a law of relationship which, if observed, will bring in the highest utility and usefulness and prosperity, but which, if violated, as in the law of personal relationships between men, brings in disharmony, confusion, and ultimate disaster.

Now, our history for the last forty years suggests—in fact, it demonstrates in the most emphatic way—that our banking and currency system has at some point at least been out of harmony with the true laws which should govern it.

I am speaking too long upon that subject.

The CHAIRMAN. No; it is the sense of this committee that you proceed until you finish.

Mr. GAGE. Now, the national banking act has operated, in my opinion, to create an extraordinary innovation in bank credits, to induce the banking function to depart very widely from its natural use, which is to minister in the field of industry, production, and exchange, and has built up an enormous fabric of bank credits, represented on the books of the banks chiefly in large cities, an artificiality, and on this great artificiality of banking now rests the immense burden of securities, fixed in form, payable at remote periods of time, that have no relationship whatever directly to productive industry or exchange. How does it do this? I think it is plain. The bank notes are issued to a bank. It gets them into the field of circulation in any way it can, and there is taken out of the field of circulation reserve money in its place, and this reserve money goes into the vaults of the bank and furnishes a basis on which is built up an artificial structure devoted to stocks, bonds, and securities, to which I have just referred.

You know that a bank can carry credit in the centers, the reserve cities; it can carry liabilities to four times the amount of its reserve money, and you know, I think, without my describing it too minutely, that deposits and loans are almost corollaries of each other to a large extent; that is, a credit made on the books of a bank in the field where bank credit circulates by checks and drafts can be swelled up in volume with reserve money one-quarter as large, because that credit, so called, will be circulated from one to the other in the field of operation to which the credit relates—and now I am speaking broadly about the field of bonds, securities, and stocks, and that sort or thing. There is no difference in the power of currency to inflate credit. There is no difference in the power between notes secured by bonds and notes not secured, except the assets or the bank. They are the same in their nature.

Not only have the notes thus issued by the Government been used to take reserve money out from the field of circulation—I mean the active field where people pass money to and fro—but they have been taken over bodily to a large extent by banking institutions that are not under the national law and counted by them as though they were legal reserve money. There is nothing to hinder them from doing it, and they argue in a manner to justify this. They say these notes issued by the banks are better than greenbacks. They are secured by obligations that draw interest anyhow, and the greenbacks are not. They are secured by the assets of the bank in addition. The greenback is not. They are secured by the Government guaranty of payment and by a 5 per cent redemption fund held by the Government, and so directly, not indirectly, but directly, by counting these notes as legal money, the State institutions take them and use them and inflate book credit, and we entertain the delusion that is very popular that we are a very rich people because the people have got thirteen thousand millions of money in the banks. That is folly. They have thirteen thousand millions of credit there, and against those credits the banks hold against the people obligations that they can compel them to pay for about thirteen thousand millions, and when all these debts are settled the whole business disappears. So we have not got thirteen thousand millions of money in the banks.

If what I have so far stated has been a fair and true explanation as to the situation, what are you going to do about it? Let it drift? We have drifted over the rocks several times. We drifted over them in 1873 and struck the rocks pretty hard. We drifted over them in 1890 and got a slight shock. In 1893, from entirely other causes, our financial ship bumped very badly. In 1907 we were on the deep waters of prosperity, where everything ought to have floated serenely, but we bumped hard. We stove open the bottom of the ship. We met with first-class disaster. Are we going to keep drifting or are we going to do something? Shall what we do be comprehensive or shall it be a mere makeshift? Shall the artificialities that have gone on for forty years be replaced by some other artificiality or shall we consider and see if we can not in some way establish foundations harmonious and consistent with the true laws that govern the whole subject?

There are two measures that are proposed to Congress now. There may be others that I have not heard of. The one is the Senate bill

introduced by Mr. Aldrich; the other is the House bill, which I hold in my hand, introduced by the chairman and referred to you. Both bills, I think, are now before the committee, are they not?

The CHAIRMAN. No; the Senate bill has not come over to us.

Mr. GAGE. The Aldrich bill, I think it will be clear enough from what I have said, I have no sympathy with at all. I do not think it is curative. I do not think it is curative of our evils. At best it is a patch or a panacea, if it even be a panacea, which once in ten years may be availed of when the country is in a condition of intense panic, and when many of the evils of the panic are developing and existing, and it may not be effective then. In the meantime, if adopted, it probably puts us to sleep. It is a gentle narcotic that woos the community into a false repose, I think, from which we will suffer many a nightmare, from which we will awaken at last in trouble and real agony.

Now, in contradistinction to that measure, there is this bill, which, as I said a little while ago, reaches to the foundation of things and it eliminates two of the artificialities which I referred to as blocking the road to reform. It eliminates gradually, or at an early period of time, the legal-tender notes without expense to the Government, through a tax upon circulation—but you are all familiar with the bill and I shall not particularize much about it. It forms a fund which will be applied without cost to the Government, to convert those $346,000,000 of greenbacks against which $150,000,000 of gold now rests, into gold certificates, and especially it operates to put in the foundation of our bank credit the only foundation that can properly be used there under our present standard, viz, gold. It eliminates and takes out of existence the present national bank note currency. It operates, if it is to become a law, to impound the present United States 2 per cent bonds, amounting to about $700,000,000, in such a way that they would never be competitive with a new Government loan in the case of a foreign or domestic war.

Thus the Government would face a situation then, with this law operating and established essentially and radically different from what it occupies now, manifestly stronger. It would have no complications by reason of a demand debt of $346,000,000, and it would withdraw it entirely as a guarantor—as a guarantor of bank notes. Therefore it would manifestly strengthen the Government and eliminate it as an obstacle from the free operation of the banking and currency principle which is sought to be established by this bill.

It does more. The measure operates to coordinate the banks of this country and take away that tendency in a time of strain to repel each other, each one grabbing for its own life, for, if you remember, the bill divides the country into twenty districts, and it affiliates those banks in a way together by making each one of them redeem its own circulating notes at a given convenient city. It establishes a government over these local institutions by a body elected by themselves, consisting undoubtedly of the men of intelligence, power, and strength in the respective banking districts. It causes them to appoint a man, well paid, selected with reference to his endowment, whose business it will be to examine and inspect and report to the local government of that district the conditions and methods of business, the personal characteristics and qualifications of those who administer in that important field. It puts upon the banks of this district a penalty for

a lack of fidelity and faithfulness in doing its work, because it requires that particular district to furnish 20 per cent of the loss occasioned to depositors or note holders by any bank in the district.

The CHAIRMAN. Ten per cent.

Mr. GAGE. Ten per cent. I always think of this as 20 per cent, because I think it should be 20. It puts them under a penalty of 10 per cent for default to the creditors of any one of their number, and makes them share alike with all the rest of the banks in the country for the difference of 80 per cent. These representatives of these districts, 20 or 10—and I am going to say 20, you can call it 10 if you want to—meet together under the terms of the bill from various parts of the country twice a year——

The CHAIRMAN. It ought to be four times.

Mr. GAGE. Well, they meet occasionally at stated periods. These agents who are the administrative officers of these centers are supposed to have imparted to them the powers that exist in a deputy controller. Under the jurisdiction of the controller himself these representatives are acquainted thoroughly with the methods and administrations of these various districts and the working of the machinery of the banking meet together and compare notes. Would not it be a most useful source from which to derive accurate knowledge and get information as to what was required in the way of reform and improvement of this method, that method, or the other method in different districts of the country? It certainly would.

The stumbling-block in the bill to most everybody, at first blush, is the guaranty of deposits. It stumbled me. I fell right down over that. I said never, never; no, that won't do. You are not going to make a black man as good as a white man by just washing him. But I reflected on this. I studied this bill, and I am persuaded that it is just, equitable, wise, and right that the creditors of the banks which come under the provisions of this bill will have their deposits guaranteed to them as will be the bank's circulating notes held by the general public. The nature of the obligation from the bank is exactly the same in principle whether evidenced by a pass book or by the bank's notes in the form of circulating money; there is no difference in the principle. It may be argued that the man depositing had the right of selection, and he acted upon his own volition, but when he took the note he was under coercion. There is a certain plausibility in the argument, but where there is only one or two banks, or only three banks, there is not much right of choice when a man is under coercion of a business necessity.

The provision for the redemption of notes under this bill seems to me to be scientific, complete, and effective in that it provides out of a general fund the expenses incidental to sending the notes from the place where they may be held, to the place of redemption, and if you were a banker you would understand how restraining it is to pay 50 cents or 75 cents or $1 thousand express charges on the money that you want to have redeemed. Some pressure must come before they will do it. The bill puts the cost upon the issuing bank of express charges if it gets its notes out to distant points.

It forbids under heavy penalty the counting of a dollar of credit notes to be issued under this bill, as a part of a bank's reserves.

And it does another very important thing, in my estimation. It will draw into the banks some five or six hundred millions of dollars

of reserve money to strengthen the volume of liabilities that now exist in the banks of the country as a whole—State and national—without giving any additional power to expand. And when you think of the many banks in this country operating with reserves of 6 or 7 per cent only, you see how weak the foundation of the great credit structure is on which we are resting.

Now, I have told you a little story of my experience and how I came to look at things this way. I think that the gentlemen who will follow me will give you some scientific reasons upon the subject that I have not indulged in.

But if I were in a bank, clothed with the responsibility, which, thank God, I am now free from—for it is a great responsibility to a man who appreciates it and carries it—if I had the responsibility upon me, and haunted by the fear, as I always have been haunted, that by some concatenation of circumstances I might go to ruin and default, by so much destroying the general welfare and causing loss to my depositors, if I desired as I should to promote conservatism in the methods of banking, if I wanted to bring them back to the exercise of their natural function, viz, to the exchange of its credit, I would, as a banker, ask to come under the provisions of this act and I would look with dread and apprehension if the bill offered in the Senate should become a law, for if adopted the curative work which can now be accomplished, or at any rate undertaken, under this bill would not be possible.

Now, it seems to me that this is the critical hour. As I said in the beginning, I believe we have approached in our industrial and commercial life a crisis—a crisis in our legislative function in its relation to banking and currency. We are not in a political panic, and we do not want to get into any. We want to look at the thing from the fundamental principles and the law of true economics, and to be governed by wisdom and without prejudice, and to do our duty as we are able to see our duty.

Now, I have talked too much, and if you want to ask me any questions, go ahead.

Mr. WEEKS. I would like to ask a question. If you were president of the First National Bank of Chicago, and the Aldrich bill passes, would you buy bonds with the possibility that you might want to use them, or would you wait until the time came and then depend on purchasing them?

Mr. GAGE. In the case of the First National Bank of Chicago I should not buy any, because they have got too many now. They have got an overstock. If I were in a country bank, if I may step aside from the particular case of the First National Bank, if I were in a country bank where I stood pretty close to the producers, where the goods of commerce originated, small factories, and where capital is scarce, and where my function as a banker was necessary to the welfare, industry, and happiness of that locality, I would take my chances on going broke before I would take $100,000, if you please, if that was my proportion of this supposed relief, and tie it up in bonds, thus leaving my constituents without the facilities I can now furnish them and so taking from them the use of my banking power for an indefinite period of time.

Mr. WEEKS. This is a pretty practical proposition. The people of this country are satisfied that the circulation now existing is good.

ıdicious for Congress to pass the Fowler its entirety and practically change our ımp?

;he people would look upon $700,000,000 t figures up, as security for note redemp- osits, with perfect complacency. They if they did not.

bill were passed according to its present away with all other banks, wouldn't it? hope that it would.

right to administer trusts and to accept

rawn, yes.

away with State banks and State insti-

ss when I come to the savings-bank ıt you might call the staggers, because I ought to take the savings of the poor for onstitutes the savings of the industrial ıt all to go to them as it does under the and I think New Jersey——

in New Jersey to speak of. There are

ınk it would be a happy circumstance if ı will all go on uninterrupted and not be else, because I think it is most equitable and for the interests of the poor—I mean e as any that could be inaugurated. But ıere that fund is vast) it might be inaugu- vided, without particular prejudice.

stion with me, Mr. Gage, is as to whether lication of the savings and trust compa- ouldn't it tend to turn into permanent he banks instead of having them attend ıdustrial business? What do you think

der the provisions of the bill, for it per- ı short time—three months—that is, in say there that the banks are doing that scribe it to you exactly, but the First erceiving that they were threatened with the trust companies and savings com- ofits of their business, they said, we must And by an ingenious device or method ir assets and divided them among their they incorporated under a law of the nk. It is separate and distinct, but it is l the profits go to the bank. The trust h $1,000,000 capital, and it has doubled 0 of surplus, and it has about $40,000,000 re broadening upon that example, and it the fullness of time.

;hat just occurred to me. We expect to e banks under a guaranty of deposits.

What does happen, and what will happen, probably more and more—it may not always happen—but a few months ago, perhaps two years ago, there was an institution in Chicago, the Chicago National Bank, of which Mr. Walsh was president. It had been in business many years. The agency of the Government had been looking at stated periods into its assets, and for a long time he had been violating every law pretty nearly and Mr. Walsh had been advised by letters written to him, which he had respectfully answered and had gone on just the same. But a crisis was finally reached when it came to the knowledge of the Chicago banks and the Clearing House Association, of which he was a member, that Walsh's affairs were terribly mixed up and he was in a "bad way."

I think it crept out from the Comptroller's office, or he felt a little weak and sent somebody to take hold of it, and the clearing-house committee of a Saturday night went over and demanded of Walsh a look at his assets, a demand he could hardly resist, since the Comptroller's authority was on top if he did not respond. They examined them and they found this situation: He owed $27,000,000. He had the highest credit. He had city and county funds, park funds, State funds and other funds, and the more intelligent of the bankers who looked over the assets hurriedly knew that there would probably be a loss if they took over his assets and assumed his liabilities, but they thought it would not do to allow that bank, in the fair, open sunlight of day, going on and doing business and accumulating these large liabilities under the auspices of the Government, to fall down and fail to pay and thus make an explosion in the financial world; so with the advice of some of the best business men in Chicago, among them Marshall Field, having got from the directors all the pledges they could get from them and the turning over of all the collateral from the directors they could get them to turn over, they took over from the bank the whole "caboodle" of assets and assumed and paid with no delay the liabilities of the Chicago National Bank.

They did that under the worst kind of circumstances, viz, where there had been years and years of business which they had no ability to ascertain or find out about, they thought it was for their interests to guaratee the deposits of John Walsh, with the absolute certainty of loss, and if you want to buy the claims of some of those banks at a considerable discount I will agree to negotiate them for you. Well, they learned a lesson, and they adopted another principle, a principle provided for in this bill. By the vote and the voluntary compliance by all the members of the Clearing House Association, they authorized the clearing house at any time and at stated periods to act upon its own volition and on its own account and for the information of the clearing-house committee itself to have a full, complete, and comprehensive investigation of each member of the association, and not only of each member but of every institution that carries the name of bank over it that is cleared or represented in the clearing house by a clearing-house bank, and I can tell you as a safe prophecy, that we are at the end of disastrous failures in the city of Chicago by clearing-house banks since this régime has come in. I am told that Kansas City has the same thing. And other cities will eventually adopt it.

The CHAIRMAN. And at St. Louis.

Mr. GAGE. Now, they are doing as Saint Paul says, without the knowledge of the law as it is required by the law; they are under grace, or something like that. But the law ought not to create so very much. It ought to discover and recognize and sanction. Men who have lived in a free state for a long time work out those rules and plans of action between themselves which are perhaps on the whole the best for them. These when just should be sanctioned by the law and made universal.

But what I have just referred to as the Chicago National Bank is not extreme. They hung a man in Baltimore many years ago. He was a banker and failed, and they hung him to a lamp-post, and I don't think there has been any bank failures in Baltimore since. They cooperate and talk each other over and see to each other before they fail. Under this bill they will see to each other before they fail.

Mr. WEEKS. Don't you think that it is the fault of the Government that the condition existed that did exist in the Chicago National Bank?

Mr. GAGE. Why, yes, you might say so, but the Government is impersonal and its agencies are perfunctory; they are human and the law is not very thorough. The Comptroller can under the law, I believe, have a national bank go under a receiver provided that they fail to pay one of their circulating notes and it goes to protest. I think if a bank goes under its reserve for thirty days and fails to make good, after being notified by the Comptroller, if I remember right—I am a little rusty—an application might be made for a receiver. He can ruin any bank if he has a mind to, by having his examiner take possession of it, but I do not know of any law for it.

The CHAIRMAN. With reference to Mr. Walsh's banking connections in Chicago, is it not true that he had under his administration two other banks than the Chicago National, and it was through the manipulation of the assets of those banks that he was able to borrow—how much from the three banks?

Mr. GAGE. I think about five or six millions. He had an institution incorporated under the law, with a beautiful name, the Equitable, a fine name—the Equitable Trust Company—and in that he gathered money which the Chicago National Bank knew how to use, or rather, Mr. Walsh, in constructing certain railroads. He had another institution to gather money, called the Home Savings Bank, I think, and what they gathered in were contributing elements of strength likewise to the Chicago National Bank.

Mr. WALDO. There is another question I would like to ask, and that is, whether the gold reserve of any bank ought not to be kept in the vault of the bank instead of being deposited in some other bank, where a part of it may be loaned under the present law, and I think under this bill.

Mr. GAGE. This bill strengthens that in the manner that I speak of, and I would answer your question that we allow too much of the reservation to lie at rest in the hands of some other bank; but a portion of the reserve might thus lie in a system that was well established and perfected.

Mr. WALDO. And it is true, isn't it, under the present law, that the money that is deposited in central reserve cities can be loaned up to 75 per cent?

Mr. GAGE. Yes.

Mr. WALDO. So that when the reserve is not with the bank that owns it, there is but 25 per cent that is in actual existence?

Mr. GAGE. That is right, and that is what causes, with the annual returning crop movement, a crisis and a threatened panic in Wall street year after year—that, and because there is no system of credit currency which is held in reserve from which to distribute the credit in whatever manner it should be distributed.

Mr. WALDO. The amount of reserve that is held in New York City at the only times when it is needed in the country is small—between two and three hundred millions.

Mr. GAGE. More than that; between three and four.

Mr. WALDO. So that in the fall, when that is needed by the country, saying it is four hundred millions, there is only actually in existence in New York one hundred millions out of the four hundred?

Mr. GAGE. That forms the reserve for that four hundred; yes.

Mr. WALDO. So that the banks of the country that are supposed to have four hundred millions of reserve as a matter of fact only have one hundred millions in actual existence.

Mr. GILLESPIE. I understand that you consider one of the virtues of the Fowler bill—that is, it requires the banks to carry a gold reserve?

Mr. GAGE. Yes.

Mr. GILLESPIE. But the bill says that it may be carried in gold or its equivalent.

Mr. GAGE. Yes.

Mr. GILLESPIE. How would you interpret "its equivalent?"

Mr. GAGE. I would interpret the "equivalent" at the present as legal-tender notes. I would interpret as another equivalent silver certificates. The silver certificate we have with us—and we can not run away from that—it is a pity, it is a pity, because when the country is strong in metallic money we not only have the bulk of the resources of the banks, but they will have distributed in active circulation through the people a considerable volume of gold or other standard money which, when the time of liquidation comes and the outward movement sets in, may to a degree be drawn and some substitute made in place thereof to the great benefit of the country and the Government.

Now, six hundred millions is a pretty large volume when it is in silver certificates. It is in the hands of the people largely, and as long as it circulates there it will not endanger the Government guaranty for a parity. You have got to have a guard for it, and so far the field of circulation has been given the preference to silver certificates in the case of one and two and possibly five dollar notes, so that money absolutely in men's pockets will absorb substantially the silver certificates, and then they will not be in the bank reserves.

Mr. GILLESPIE. Under that construction of those words it would also practically cover every form of currency that we have. Our bank notes are indirectly convertible into gold. We can take them and get the gold on them. If you are going to allow the banks to keep gold or its equivalent, and if you interpret the present kinds of currency in existence the equivalent of the gold dollar, wouldn't a bank be authorized to keep any of the present form of currency in its reserve as well as gold?

Mr. GAGE. That could be best answered by the language of the bill itself.

Mr. GILLESPIE. It is in just these words, "gold or its equivalent," all the way through.

Mr. HAYES. Mr. Gillespie's point is that bank notes secured by bonds as at present rest ultimately upon the Treasury of the United States for redemption.

Mr. WALDO. Another point: This bill provides that this board of managers in the respective redemption districts, except savings banks and trust companies, may fix the rate of interest that these institutions shall charge and destroy competition between them. Now, do you think that is a wise provision, just that feature—that this board should have the right to fix the rate of interest?

Mr. GAGE. I think it is a wise provision and a necessary one; yes.

Mr. WALDO. It would destroy competition between these institutions.

Mr. GAGE. In that form, yes.

Mr. WALDO. That would leave loans to be placed whether they were good or not, instead of upon how much bonus or interest they would pay?

Mr. GAGE. Yes.

Mr. WALDO. It would be an element to do away with bad loans?

Mr. GAGE. I think so.

The CHAIRMAN. There is one more question that I would like to ask, Mr. Gage. Do you think that this guaranteeing of deposits would lead to unsound banking?

Mr. GAGE. No, sir. I think the fact that under your bill there would be a penalty for neglect of inspection, and that there would be the machinery for inspection, would lead to sound banking. The only restraint upon the bank officer really is the fear of loss, not to his depositors but to his stockholders. That fear and restraint would be as operative under your bill as it is now, and the influence of the inspections and the restrictions that would be formulated by these associates who have to bear part of the risk that that man takes if he goes wrong is a pretty good insurance that he will go right, and if he goes right he will go in conformity with the principles of good banking instead of going loose like a wild horse on the prairie.

Mr. CRAWFORD. What do you say produced this panic?

Mr. GAGE. It would take about five minutes to tell you that.

Mr. CRAWFORD. Take the time.

Mr. GAGE. This, I think, is the true story of it. I spoke a little while ago about the ability of the banks with the present system of currency, with national bank notes to aid them to get in reserve money and expand their loans and discounts on that basis. This went on, and the loans were based not on commercial assets nor put out in the interests of industry or commerce; they were put out to carry fixed forms of securities either in the form of stocks or long-time bonds, and the percentage of loans on these kinds of securities last named, the percentage in proportion, has constantly grown. I hope some of the gentlemen who succeed me will give the figures. Now, the banks in New York and the great centers had the theory that they were the best securities in the world for a bank to loan upon.

If they had margin enough upon these securities, it did not make much difference about the quality of the borrower, as they could at any time take those securities in the market in the stock exchange and sell them and realize the money on them. They forgot that the banks had all the money all the time, and that there never was any stock of money to be got from the street; they forgot that when everybody are sellers under the necessity of contraction there can be no buyers. They forgot that in undertaking to realize upon this class of securities beyond a certain point they would simply ruin the quality of the collaterals which remained behind that they could not market, and they had to draw a line where they had to stop and rest.

That was the situation that was found in the close of the year 1907, viz, extended loans, narrow resources, and a great volume of long-time obligations, which ordinarily would be taken over by the investor, who is the man that ought to have them, for he is the man who has the funds to invest in long-time securities, not the man or the institution that owes money on demand. Anticipating the future and encouraged by the fluency and activity of things, the banks took on as intermediaries between the purchasers of these securities, the investors in these securities, an enormous quantity of these stocks and bonds, which they held in the faith that they would run off on the other side into the investors' hands, and the value would be recovered in the bank, and fresh securities of a similar kind taken on.

Now, as in every fall, the crop movement came, the best we ever had in many respects, and the banks in New York, as my friend over here said, owed between three and four hundred millions of dollars to the interior banks, and the necessities of the occasion compelled the banks in the interior to make their natural and just requests upon the central banks for something to "move the crops." Of course, in the absence of any currency system of the credit kind the banks had no power to help themselves by issuing their notes—I mean the banks outlying all over the country—neither had the New York banks any power to convert their obligations, as evidenced by their books, into note obligations which they might send out, and which, if used, would answer the purpose perfectly well. No; they were obliged to take the cash reserve money on which the local credit structure four times as high rested. Every dollar pulled from the reserve to furnish this temporary use in the country helped to pull the foundation out from under the structure.

Now, there were other elements of destruction. I will not enumerate them. There had been many loud voices of denunciation from many quarters, and they had scared the investor. He did not want to buy at that time, and the banks, moved by a natural instinct to strengthen their position for the outward movement, called upon their borrowers, carrying these securities for payment, and these borrowers tried to pay, they tried to pay by selling their securities, but the investor was not there, he was afraid. Other banks were not in any better position because they were all in the same position, substantially, in relation to the country.

The downward decline of these securities under this pressure in the stock market is well known. The banks in the country had also learned that on three separate occasions their balances in New York had suddenly been tied up, and when they telegraphed for money

that was due them they got wires back saying, "We are not sending currency." They had been embarrassed and choked and garroted on three or four occasions in previous times. They learned something by experience, undoubtedly—human nature will.

There was a crisis, and the banks of the country did not wish to be again surprised, and they telegraphed to the New York banks for money that they did not need, anticipating if they did not get it then they might not get it at all; that aggravated the situation, and the next time it will be worse than it is now. They have learned the lesson more deeply and better. Then was witnessed also the troubles of the Knickerbocker Trust Company, which I know had been looked upon with distrust by the city financial institutions in New York, but they had not power to do anything; they had no personal knowledge, but only instinct, but with a certain belief in their minds that if a crisis ever came the Knickerbocker would be a complicating factor in the situation.

I was told two years ago by men who knew in a general way about it, but they had no power, they could not slander their neighbors, they could not use what they knew intuitively, with no evidence. The Knickerbocker, with 5 or 6 per cent of resources, waved the flag of distress, and what was a crisis and a developing crisis scared the savings banks. The savings banks have a natural pride in meeting the requests of what they call their customers and they undoubtedly drew large amounts of money which they usually kept on deposit with New York banks into their own coffers. How much I do not know. It would be interesting if somebody did know. That and the newspapers and the action of the banks in the country scared the banks and put them to considering the necessity of protecting themselves, as they had before, by shutting down and refusing payment, and that was a panic. Then it was a panic.

Well, what did they accomplish by the clearing-house certificates? They do provide means for liquidation to each other, and thus pass the burdens back and forth according to their respective strength as developed in the clearing house. By shutting down and refusing to pay, but compelling liquidation to them from those who owed them, merchants and manufacturers against whom they held a claim, they strengthened themselves, canceled the clearing-house certificates and resumed. I think that is a fair sketch of the causes of the panic.

Mr. Waldo. I move that a vote of thanks by the committee be tendered Mr. Gage.

Motion seconded and carried unanimously by a rising vote.

(Thereupon the committee took a recess until 2.30 o'clock p. m.)

H. R. 12677, SIXTIETH CONGRESS, FIRST SESSION.

IN THE HOUSE OF REPRESENTATIVES.

JANUARY 8, 1908.

Mr. FOWLER introduced the following bill, which was referred to the Committee on Banking and Currency and ordered to be printed.

[Omit the part struck through and insert the part printed in italics.]

A BILL To establish a simple and scientific monetary system, founded upon gold, guaranteed bank notes, and silver, with uniform banking and bank reserves in gold coin or its equivalent; to guarantee all deposits and note issues; and to fix certain rules and regulations whereby the financial operations of the Government shall cease to be a disturbing factor in our trade and commerce.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That upon the passage of this Act the Comptroller of the Currency shall immediately proceed to designate such cities in the United States, ~~including the District of Columbia, Arizona, and New Mexico, for the location of bank note redemption agencies, numbering them consecutively, as will practically bring every national banking association within twenty four hours of some one of such agencies: Provided, however, That the twenty four hour rule shall only apply where the railroad facilities are good and that the number of such agencies shall not exceed the requirement of bringing all national banks practically within twenty four hours of some one of such agencies~~ *not exceeding twenty in number, for the location of bank-note redemption agencies, numbering them consecutively as shall best accommodate and serve the banking business of the country.*

SEC. 2. That within thirty days after the designation of the cities for the location of the bank-note redemption agencies, every national bank, with the approval of the Comptroller of the Currency, shall select one of the cities so designated as the place for its bank-note redemption agency, and thereupon the Comptroller of the Currency shall notify all the national banks to meet at their respective bank-note redemption agency cities on a given day, and at a designated place, for the purpose of organizing the several bank-note redemption agencies. Each bank shall be entitled to only one vote, which shall be cast by an officer of the bank who has been duly authorized by a vote of the board of directors thereof, *such authorization to be evidenced in writing and under the seal of said bank.*

SEC. 3. That the association of all the national banks clearing or redeeming their notes at any one of the cities so designated shall be known as "The [insert number] Bank-note Redemption District."

~~SEC. 4. That all the national banks of each of the bank note redemption districts so constituted shall organize themselves into an associa-~~

~~tion to be known as "The [insert number] Bank note Redemption District" by electing a board of managers consisting of seven members, who shall serve, according to the number of votes received, respectively, for seven, six, five, four, three, two, and one years, and by adopting a set of by laws for the proper conduct of their business.~~

Sec. 4. That all the national banks of each of the bank-note redemption districts, so constituted, shall organize themselves into an association to be known as "The bank-note redemption district," by electing a board of managers consisting of eight members, who shall serve as follows:

Two of the members shall serve for one year; two of the members shall serve for two years; two of the members shall serve for three years; and two of the members shall serve for four years.

~~SEC. 5. That every year thereafter on the first Monday in May all the national banks of each of the bank note redemption districts aforesaid shall elect one member to its board of managers to succeed to the vacancy caused by the expiration of the term of the retiring member, and such newly elected member shall serve for a period of seven years. In case a vacancy occurs in said board of managers by death or resignation the board of managers shall fill the same until the next annual election, when some one shall be elected to fill the unexpired term. In the election of all members to the board of managers each bank shall vote as prescribed in section two of this Act.~~

The members so elected shall thereupon determine by lot what the length of service of each member shall be, and they shall adopt rules for the proper conduct of their business.

SEC. 5. That every year thereafter on the first Monday in May all the national banks of each of the bank-note redemption districts shall elect two members to its board of managers to succeed to the vacancies caused by the expiration of the term of the retiring members, and such newly-elected members shall serve for a term of four years. In case a vacancy occurs in said board of managers from any other cause than of the expiration of the term of office the board of managers shall fill the same until the next annual election, when some one shall be elected to fill the unexpired term. In the election of all members to fill vacancies in the board of managers each bank shall vote as prescribed in section two of this Act.

After any member of said board of managers shall have served a full term of four years he shall be ineligible for reelection until he has been out of office for at least one year.

~~SEC. 6. That the board of managers of each bank note redemption district, so selected, shall appoint one of their number to act as chairman for the ensuing year, who shall thereupon become a deputy comptroller of the currency, and shall give his entire time to the bank note redemption district, and shall receive as compensation therefor six thousand dollars per annum, payable five hundred dollars monthly; and in case of any bank failure in his bank note redemption district the chairman of said board of managers shall act as receiver thereof without any additional compensation therefor.~~

SEC. 6. That the board of managers, elected as prescribed in sections four and five, shall on the first Monday of June in each year select a ninth member, who shall thereupon become a deputy comptroller of the currency and shall act as chairman of said board of managers. He shall give his entire time to the duties of his office and shall serve for

one year; and his compensation therefor shall be six thousand dollars per annum, payable in monthly installments. The board of managers, however, may increase said salary, provided that such increase be authorized by the redemption district at its annual meeting and assessed pro rata upon capital and surplus of all the banks embraced therein.

In case of a bank failure in any bank-note redemption district, a receiver of the failed bank shall be appointed by the board of managers thereof, who shall determine the compensation of said receiver, which shall be a fixed salary paid from the assets of the failed bank, except where the deputy comptroller is appointed as receiver, when no additional compensation shall be allowed.

Vacancies in said board of managers may occur by death, expulsion, or resignation; and shall occur whenever a member of the board of managers shall be a director or officer of a suspended, insolvent, or failed bank; or when a member shall have been absent from three consecutive regular monthly meetings of the board of managers, unless said absent member shall, previous to such absence, have applied for and received by resolution of the board of managers a leave of absence for a longer definite term, which shall not exceed six months.

SEC. 7. That each chairman of a board of managers, subject to the direction of the board, shall ~~succeed to~~ *have* all the authority of the Comptroller of the Currency so far as the supervision of the banks in his particular bank-note redemption district is concerned, and all the decisions of the courts affecting the office of the Comptroller of the Currency shall be applicable to the conduct of the chairman of the respective bank-note redemption districts. But for the purpose of securing a uniform system of bank reports, all the national banks shall make reports to the Comptroller of the Currency as now provided by law.

SEC. 8. That five members of said board of managers shall constitute a quorum to do business.

SEC. 9. That each board of managers so selected shall have entire and sole charge of the organization and conduct of its bank-note redemption agency, and ~~without the suggestion or consultation with the Comptroller of the Currency,~~ shall select and direct such a number of bank examiners as the board may from time to time deem requisite for the proper supervision of the national banks within its redemption district; and thereafter all bank examinations under the direction of the Comptroller of the Currency shall cease, except when in his judgment the public interests demand a special examination, which shall be conducted under his direction.

All compensations paid to the examiners in the several redemption districts shall be in the form of stated salaries, and shall be borne equally share and share alike by the respective redemption districts and out of the general guaranty fund.

SEC. 10. That each board of managers of the several bank-note redemption districts shall meet at least once every month throughout the year at its respective bank-note redemption agency. The day of said monthly meeting shall be the second Thursday in every month, unless the board of managers shall, by vote, select some other day.

And the compensation to be paid to each member of said board, except to the chairman thereof, shall be ten dollars for each meeting.

SEC. 11. That upon the completion of the organizations of the several bank-note redemption districts, as hereinbefore provided, any

national bank may retire all *or any part* of its present bond-secured note circulation by depositing with the United States Treasurer an amount of the present bond-secured notes ~~and~~ *or* of lawful money *or both*, which~~, together,~~ will be equal to ~~its entire circulation now outstanding,~~ *the amount of its circulation so retired* and may thereupon, *with the approval of the Comptroller of the Currency*, take out for issue and circulation an amount of bank notes, which shall be known as "national bank ~~guaranteed credit~~ notes," equal to *an amount not to exceed* its paid-up *and unimpaired* capital without depositing United States bonds to secure the payment thereof as now provided by law: *Provided, however*, That before any national bank shall have the right to retire its present bond-secured circulation and take out "national bank ~~guaranteed credit~~ notes," as in this section prescribed, it shall first, unless located in its redemption city, make arrangements with a national bank which is located in its redemption city for the redemption of its bank notes in gold coin or ~~its equivalent~~ *other lawful money*; and shall deposit in gold coin or ~~its equivalent~~ *other lawful money*, with the Treasurer of the United States an amount of money equal to five per centum of its average deposits during the preceding calendar six months, and in addition thereto an amount equal to five per centum of the "national bank ~~guaranteed credit~~ notes" it proposes to take out for issue and circulation.

SEC. 12. That any national bank desiring to take out for issue and circulation an amount of "national bank ~~guaranteed credit~~ notes" in excess of its paid-up capital may do so, *to an amount not to exceed one hundred per centum of its unimpaired capital stock*, provided the board of managers of the bank-note redemption agency to which it belongs first gives its approval thereto*; that any national bank organized after the passage of this Act shall have all the rights and privileges granted by this Act, and shall be subject to all the provisions thereof.*

SEC. 13. That the "national bank ~~guaranteed credit~~ notes" referred to in the two preceding sections shall be printed upon paper with green background or effect, and shall bear these words: "National bank ~~guaranteed credit~~ note. Will be redeemed upon demand over its own counter by the ——— National Bank in gold coin or ~~its equivalent~~ *other lawful money*. The payment of this note is guaranteed by a fund deposited with the Treasurer of the United States," and such other words as the Comptroller of the Currency may approve.

SEC. 14. That thereafter every national bank shall have upon deposit, upon the tenth days of January and July each year, with the Treasurer of the United States, an amount of gold coin or ~~its equivalent~~ *other lawful money*, equal to five per centum of its average deposits during the preceding calendar six months and five per centum of its "national bank ~~guaranteed credit~~ notes" taken out for issue and circulation.

SEC. 15. That as soon as the amount of money deposited by the national banks with the Treasurer of the United States as aforesaid shall reach the sum of twenty-five million dollars, all the bonds now deposited by national banks to secure Government deposits shall be returned to the respective banks to which they belong, and from and after that date any national bank holding a Government deposit shall pay interest thereon to the Treasurer of the United States at the rate of two per centum per annum, *and the said interest so received shall be paid into the Division of Redemption of Trust Funds in the Treasury and United States notes of an equal amount shall be retired and can-*

celed and gold certificates issued therefor, as provided in section thirty-five of this Act. ~~the same being~~ *The said interest shall be* payable as follows: One per centum on the first days of January and July in each year on the average balance during the preceding six months, *said deposits shall be equitably distributed as hereinafter provided.*

SEC. 16. That any national bank which has taken out "national bank ~~guaranteed credit~~ notes" for issue and circulation, in accordance with section eleven of this Act, shall pay to the Treasurer of the United States, on the first days of January and July of each year, one per centum upon the average amount of notes in actual circulation during the preceding six months.

SEC. 17. That the five per centum of all deposits so deposited with the United States Treasurer, the five per centum of all note issues so deposited with the United States Treasurer, ~~the interest paid by the national banks upon United States Government deposits to the Treasurer of the United States,~~ and the two per centum paid to the Treasurer of the United States upon the "national bank ~~guaranteed credit~~ notes" in circulation shall constitute a common or general guaranty fund for the following uses and purposes, namely: To guarantee the payment of all individual deposits, all bank notes, all bank deposits, and all Government deposits without discrimination or preference, and to pay all the expenses incurred in any way in properly conducting and maintaining the several "bank-note redemption agencies," including the charges for the transmission of bank notes by any national bank to its "bank-note redemption agency," and all expenses of whatsoever kind incurred in the examinations of the banks of the respective "bank-note redemption districts," *except as provided in section nine of this Act* and all the expenses incurred by the members of the respective boards of managers in the performance of their official duties.

~~SEC. 18. That primarily, and for the time being, eighty per centum of the said guaranty fund shall be invested in United States Government bonds, bearing two per centum interest. In purchasing said bonds a first preference shall be given to the bonds now deposited by national banks with the United States to secure the payment of the bank notes now outstanding, the price in all such cases to be the price paid by the respective banks for the particular bonds now held by them. Second preference shall be given to the United States two per centum bonds, if any were purchased in good faith and are now held as security for the United States Government deposits. No purchases of bonds made by any national bank after January first, nineteen hundred and eight, shall be recognized as bona fide.~~

SEC. 18. That the Comptroller and the said deputy comptrollers, the chairmen of the several boards of managers of the "bank-note redemption districts" shall have the direction and control of the guaranty fund, for the uses and purposes for which it is created; that they shall purchase said two per centum bonds, first, from the banks that have them deposited to secure circulation, paying therefor one hundred and four, and accrued interest: Provided, That if more bonds are offered than there are funds available for purchase there shall be taken a pro rata proportion of such offerings, under such rules and regulations as may be adopted by the Comptroller and the several boards of managers; and after all said two per centum bonds thus held by the banks are purchased, then all other of said two per centum bonds which the owners

desire to sell shall be purchased, from time to time at said price, one hundred and four and accrued interest, in the order offered.

~~SEC. 19. That the balance, or remaining one fifth of the said guaranty fund at least, shall be kept in cash and deposited with the various bank note redemption agencies or national banks located in bank note redemption cities, for the purpose of facilitating and effecting the redemption of national bank notes.~~

SEC. ~~20~~ *19.* That said "national bank ~~guaranteed credit~~ notes," issued in accordance with the provisions of this Act, shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, including duties on imports, and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and in redemption of the national currency. Said notes shall be received upon deposit and for all purposes of debt and liability by every national banking association at par and without charge of whatsoever kind.

SEC. ~~21~~ *20.* That any national banking association, situated and doing business in a central reserve city, or a reserve city, shall at all times have on hand in lawful money of the United States an amount equal to at least twenty-five per centum of its "national bank ~~guaranteed credit~~ notes" in circulation; and every other national banking association shall at all times have on hand in lawful money of the United States an amount equal to at least fifteen per centum of its "national bank ~~guaranteed credit~~ notes" in circulation: *Provided, however,* That any national banking association situated and doing business in a reserve city may keep seven and one-half per centum, or three-tenths, of its reserve in cash deposits in a central reserve city; and that every national banking association, situated and doing business outside of a central reserve city or a reserve city, may keep four per centum, or four-fifteenths, of its lawful money reserve in cash deposits in a central reserve city, or a reserve city.

SEC. ~~22~~ *21.* That every national bank may count as a part of its required reserve the amount it shall have deposited with the United States Treasurer in accordance with sections eleven and fourteen of this Act, and shall be entitled to receive interest thereon at the rate of one per centum per annum, payable annually on the first day of July each succeeding year.

SEC. ~~23~~ *22.* That any national bank desiring to wind up its affairs and go out of business shall be entitled to receive back its advance made to said guaranty fund, less any deductions made because of bank failures *or expenses incurred in accordance with the provisions of section seventeen: Provided, however,* That all the liabilities of such bank have been paid in full and satisfied, or an amount of lawful money equal thereto has been paid into the United States Treasury for that purpose, and the Comptroller of the Currency approves the repayment of said sum.

SEC. ~~24~~ *23.* That whenever any bank failure occurs after the first day of January, nineteen hundred and nine, ~~one tenth~~ *one-fourth* of the loss resulting therefrom shall be borne by the banks of the bank-note redemption district to which the bank failing belongs, pro rata or according to their respective deposits and note issues, the same being deducted from the interest due such banks upon their deposits

in the guaranty fund, and the balance, or ~~nine-tenths~~ *three-fourths* of the loss, shall be borne by the general or common guaranty fund.

SEC. ~~25~~ *24*. That from and after the first day of January, nineteen hundred and nine, no national bank shall pay out over its counter any bond-secured bank note, but shall send the same to its bank-note redemption agency, and the bank-note redemption agency shall forward it to the United States Treasury for redemption, cancellation, and destruction.

SEC. ~~26~~ *25*. That any national bank that shall count any national bank ~~guaranteed credit~~ note or notes as a part of its reserve shall pay into the said guaranty fund a penalty ~~(tax)~~ of ten per centum per diem on the amount so counted, and any national bank that shall after January first, nineteen hundred and nine, count any bond-secured bank note as a part of its reserve shall pay into the said guaranty fund a penalty ~~(tax)~~ of ten per centum per diem upon the amount so counted.

SEC. ~~27~~ *26*. That any national bank that has a paid-up capital of at least ~~one hundred~~ *fifty* thousand dollars, and ~~has a~~ *the* surplus ~~of at least fifty thousand dollars~~ *required by law*, ~~and has been in business at least five years,~~ may act as guardian, administrator, executor, or trustee in accordance with the laws of the State or Territory where situated or located, and the reserves required in all such cases shall be determined and fixed by the board of managers of the "bank-note redemption district" within which such bank is located. All such accounts shall be kept separate and apart from all other accounts.

~~SEC. 28. That from and after the passage of this Act any national bank may accept savings bank accounts; but such accounts shall not be subject to check, but be paid out only on book account, and all the records and books shall be kept separate and apart from the commercial accounts of the bank, and the reserves required in all such cases, and the interest to be allowed, shall be determined and fixed by the board of managers of the "bank note redemption district" where such bank is located.~~

SEC. ~~29~~ *27*. That all investments made for the benefit of the accounts referred to in ~~the two preceding sections~~ *section twenty-seven* shall be under such rules and regulations as may be prescribed by the board of managers of the respective agencies, subject, however, to any laws that the several States may have passed or may pass limiting, determining, and prescribing such investments.

SEC. ~~30~~ *28*. That from and after the passage of this Act no national bank shall pay on any commercial account a higher rate of interest than two per centum *per annum* upon monthly balances. Nor shall time certificates be issued ~~payable upon demand~~ for a shorter period than three months, ~~and in~~ *the rate of interest thereon being fixed from time to time by the boards of managers of the respective redemption districts. In* no case shall a time certificate ~~or a savings bank account~~ be transferred or converted into a commercial account. Nor shall this be accomplished in any way directly or indirectly, and any bank that violates this section shall pay into the guaranty fund a penalty of ten per centum upon the amount so transferred or converted.

SEC. ~~31~~ *29*. That the Comptroller of the Currency and the deputy comptrollers, who are the chairmen of the boards of managers of the respective "bank-note redemption districts," shall meet at least every six months at such place as the Comptroller shall designate, and such regular meetings shall be held on the second Tuesday of April and October in each year, unless the Comptroller and the deputy comptrollers by vote select some other day and month.

SEC. ~~32~~ *30.* That the Comptroller shall always act as chairman of said meetings and except as herein provided shall continue to exercise all the authority and powers now exercised by him. The said deputy comptrollers shall report to the Comptroller all violations of law, and give him such information from time to time, as he may call for.

SEC. ~~33~~ *31.* That ~~all prosecutions for violations of the law shall be under the direction of the Comptroller of the Currency,~~ *under the direction of the Secretary of the Treasury it shall be the duty of the Comptroller of the Currency to enforce the provisions of the national banking laws*, and the said deputy comptrollers shall render him such assistance and services as he may require.

SEC. ~~34~~ *32.* That the Comptroller and the said deputy comptrollers, the chairmen of the several boards of managers of the "bank-note redemption districts" shall have the direction and control of the guaranty fund so far as it may be necessary to use it to facilitate and effect the redemption of the national bank notes at the several agencies, and shall have power to determine in what securities said guaranty fund shall be invested, if at any time it shall be necessary to purchase other and additional securities than the United States Government two per centum bonds now outstanding, as herein provided.

SEC. ~~35~~ *33.* That from and after the date that said guaranty fund shall amount to the sum of twenty-five million dollars the *Secretary of the Treasury of the* United States ~~Government~~ shall deposit from day to day all ~~its~~ *Government* receipts from whatever source received in such national banks as ~~it~~ *he* may select: *Provided, however*, That after the first day of January, nineteen hundred and nine, it *shall be the duty of the Secretary of the Treasury of the United States to deposit said funds equitably throughout the several States and he* shall not have and keep on deposit in any one national bank an amount of money greater than fifty per centum of the capital thereof.

SEC. ~~36~~ *34.* That from and after the date that said guaranty fund shall amount to the sum of twenty-five million dollars all debts and obligations of whatsoever kind owing to the United States Government, including stamp sales, internal revenues, and duties on imports, may be paid by check and draft given by any *solvent* national bank or by draft accepted, or check certified by any *solvent* national bank, and all debts or obligations owing by the United States to others shall be paid by check or draft upon ~~some~~ *a* national bank which is a United States depository, or upon the Treasury or one of the subtreasuries of the United States, at the option of the Government.

~~SEC. 37. That if the five per centum guaranty fund shall not amount to sufficient by January first, nineteen hundred and nine, to purchase all the United States Government two per centum bonds held by the banks, the United States Government shall use so much of its deposits then held by the banks as may be necessary to purchase the balance upon the same terms as prescribed in section nineteen of this act, and the bonds so purchased shall remain in the United States Treasury to be taken up from time to time as the said guaranty fund increases: Provided, however, That not more than two hundred million dollars of the money in the Treasury outside of said guaranty fund, and held by the banks, shall be used for such purpose.~~

SEC. ~~38~~ *35.* That whenever the accumulations from said guaranty fund, arising from the interest on said bonds, and interest upon any

part of said fund deposited with national banks, ~~the interest on Government deposits,~~ and the tax upon the national bank ~~guaranteed credit~~ notes, shall reach twenty-five million dollars, after paying all the expenses as provided in section eighteen and meeting any losses due to bank failures, the excess remaining over and above said twenty-five million dollars on each succeeding first ~~day~~ *days* of January *and July in each year* shall be paid ~~in gold coin~~ into the ~~reserve fund of the United States Treasury until the amount of gold coin therein shall be three hundred and forty six million dollars, whereupon all the United States notes outstanding shall be converted into gold certificates, and thereafter no national bank shall hold a United States note as part of its reserves, nor shall the Government of the United States thereafter pay out a United States note, but they shall be canceled and destroyed~~ *Division of Redemption of Trust Funds of the United States Treasury in gold coin, and as soon as the Secretary of the Treasury shall receive and cancel an amount of United States notes equal to the gold so paid in he shall issue gold certificates therefor. And when the Secretary of the Treasury shall have so retired and canceled one hundred and ninety-six million six hundred and eighty-one thousand and sixteen dollars of the United States notes, he shall transfer all the gold coin and bullion in the reserve fund, amounting to one hundred and fifty million dollars, to the Division of Redemption of the Trust Funds, and thereafter no national bank shall hold a United States note as a part of its reserves, nor shall there be paid out of the United States Treasury any United States notes, but the same when receied shall be canceled and destroyed and gold certificates issued therefor.*

SEC. ~~39~~ *36*. That all Acts or parts of Acts inconsistent with the provisions of this Act are hereby repealed.

ADDRESS OF HON. CHARLES N. FOWLER, CHAIRMAN COMMITTEE ON BANKING AND CURRENCY, ON THE FINANCIAL SITUATION, BEFORE THE ILLINOIS MANUFACTURERS' ASSOCIATION, AT CHICAGO, DECEMBER 10, 1907.

ADDRESS OF HON. CHARLES N. FOWLER, ON THE FINANCIAL SITUATION, BEFORE THE ILLINOIS MANUFACTURERS' ASSOCIATION, AT CHICAGO, DECEMBER 10, 1907.

MR. PRESIDENT, AND GENTLEMEN OF THE ILLINOIS MANUFACTURERS' ASSOCIATION: More than seventy years ago a Green Mountain State young man, after marrying the best woman that ever lived, came across the Great Lakes; and, passing through Chicago, then a most uninviting place, went into the interior of this State, selected a prairie farm, skirted by beautiful woodland, and, planting his family altar near a splendid spring which came bubbling up from a great ledge of limestone, there, with only a single neighbor within a dozen miles, built the log cabin within which I was born.

Whenever I revisit this old stamping ground of my childhood, I lay me down by that goodly spring, and again, as in the hot summer days of my youth, nurse at the bosom of mother earth, forgetting almost a half century of an active life.

Again, after my college days, I came to this city, and, almost within a stone's throw of where I now stand, became a student at the Chicago Law School, graduating there in 1879.

Your invitation, then, to come here upon this occasion was the voice of old friends and neighbors calling me home; yes, it was something more—it was the call of my country, and patriotic duty compelled me to accept.

Under present atmospheric conditions I feel as though I am in a measure upon the witness stand, and that you are entitled to know whether there is any reason for discrediting the statement of the witness.

In these days of surprise, doubt, fear, suspicion, hate, malice, revenge, and reprisal, I feel constrained to divest my hearers of any possible thought of me as in any way identified with the banking, railroad, or so-called "trust" interests, in order that my words may not be misinterpreted through a misapprehension.

A MANUFACTURER TO MANUFACTURERS.

More than twelve years ago, when I began this campaign for a gold standard and currency reform, I disposed of what bank stock I then had and have not owned a single share since. Nor do I own a single share of railroad stock or a railroad bond. Nor do I own a single share of stock or a bond in any one of the so-called "trusts."

I am essentially one of you, a manufacturer, and have been employing about 500 men, although I regret to say not so many just now. Therefore we may have a heart-to-heart talk and my words be taken for what they are worth from the standpoint of the manufacturer.

PATRIOTIC DUTY.

If I saw the Government of my country going wrong, radically wrong, and pursuing a policy that must inevitably lead to financial disaster, commercial ruin, to immeasurable losses to the people, to national discredit and disgrace, and yet did not earnestly protest and do all in my power to prevent these consequences, I should be untrue to myself, unworthy of the trust reposed in me, recreant to my duty, and a traitor to my country.

If upon this occasion I shall show you that we have been going wrong in our finances ever since the civil war, and that the fundamental evils then incorporated into our financial and currency practices are now leading us directly, unerringly, inevitably, and swiftly to conditions that will certainly outparallel the difficulties, disasters, and disgrace that may have ever visited any civilized country, what will your duty be? What is more important, what will your action be?

True patriotism and love of country find their finest exhibitions in the civic walks of life; because here there is none of the glamour and glory of war, very little public inspiration, and their compensation comes in the silent consciousness of duty done.

Are you patriotic, loyal and self-sacrificing enough to fight for such a reward?

THE UNITY OF THE COUNTRY.

As in 1896, certain sections of our country were arrayed against certain other sections, brought about through misstatements and misapprehensions, and men raged against the "gold bugs" as if they were public enemies, and when one conspicuous politician visited New York, he called it the enemy's country.

Gentlemen, there is no enemy's country anywhere under the Stars and Stripes!

So to-day I learn from my fellow members of the House of Representatives and from editorial comments that there is a profound misunderstanding and a consequent most unfortunate misapprehension of the present situation.

Meeting a United States Senator from the West just one week ago to-day, he said: "If your damned New York and Chicago bankers had paid us our money, we should have been all right."

No bank can or is expected to pay all its depositors in a day. Suppose that the banks of the Senator's home town had not had a single dollar in the Chicago or New York banks. Would the Senator say that his home banks could have paid all their deposits upon demand? No. Now, who are the depositors of the Chicago and New York banks? Not only the merchants and manufacturers of those great cities, but the country banks, including the banks in the Senator's own town.

Does anyone believe that the clearing-house committee of Chicago is less true and patriotic than the clearing-house committee of St. Paul or Duluth, or of St. Louis or New Orleans? Or that the clearing-house committee of St. Paul or Duluth, or of St. Louis or New Orleans, is less true and patriotic than that of Kansas City; or the Kansas City committee less so than that of Denver; or the Denver

committee less so than that of Salt Lake City; or the Salt Lake City committee less so than that of San Francisco?

Does anyone believe that the clearing-house committee of Chicago is more true and patriotic than the clearing-house committee of Boston, Philadelphia, or New York?

Gentlemen, all the banks are relatively in the same position; and I think it can be truthfully stated that the action of our bankers throughout the whole country during the recent trying circumstances is a source of profound satisfaction, while the self-control manifested by the people generally, North and South, East and West, is a guaranty of republican institutions.

Any man who attempts to arouse and set one section of our beloved country against another, or array one class of our people against another because it happens to be more powerful politically, is not a true friend of the people—indeed, he is an enemy of the Republic.

All things considered, if there is one class of our people more unfortunate than another, or one spot in our great country more sorely afflicted than any other, it is the wealthy people in the city of New York. Then why should blame rest there? Can anyone upon second thought think that any people would consciously and willingly court misfortune? No, gentlemen; let us be true, square, intelligent, brave men, and seek out the real causes and put the responsibility where it rightly belongs. No manly man, no patriotic man, no lover of his country, will desire to do less.

INVESTMENT CAPITAL.

The financial condition of the United States is very similar to that throughout the world; because, from the standpoint of investment capital, the whole world over is practically one.

Let no one suppose that I am not aware that the Spanish-American war, the Boer war, the Baltimore fire, the Japanese-Russian war, the San Francisco earthquake and fire, the Chilean earthquake, all combined consuming about $4,000,000,000 of wealth, and the tremendous expansion in railway and trolley building and equipment, in mine development, and in the increase of manufacturing plants, had, by the first of the year 1907, completely exhausted the investment fund of the world and made large encroachments upon the commercial fund.

CURRENT EXCHANGE.

On the other hand, gentlemen, mark this difference. The commercial condition in the United States is very dissimilar from that to be found anywhere else in the world, so far as I know, because no other country has so poor a mechanism of current exchange as we have. So far as I can judge, no such condition could exist anywhere else in the world except here, and I am convinced that if we had had such a system of currency as Canada or France now has the currency panic of 1907 would never have occurred, and we should never have been conscious of the fact that we were handling agricultural products worth more than $7,000,000,000, in connection with the output of our mines and factories, valued at more than $18,000,000,000.

THE INTERRELATION OF BUSINESS LIFE.

Without a clear comprehension of the oneness of the whole world in all matters involving capital and the essential importance of an efficient mechanism of current exchange, it would be impossible to judge wisely, broadly, and justly the present situation and to comprehend the fact that not to any locality or class of men, but to the want of a scientific, sound, and wise financial and currency system, is due the commercial misfortunes from which we are all now suffering, from the Atlantic to the Pacific, from Canada to the Gulf.

COMMERCIAL ONENESS.

Though we may now live thousands of miles apart, yet we are within speaking distance of each other. So marvelous is our age, so intimate are our business relations, and so completely one is our country that no part of it can seriously suffer without some injury to every other part.

As the pebble thrown into the lake sends its ripples to the farthest shore, so every business house in our ocean of commerce impresses itself remotely upon every other business house, and so every bank in our sea of commerce indirectly, at least, affects every other bank. In other words, one and all are links in the endless chain of our interdependent life.

THE MAGNITUDE OF THE TASK.

Let us pause for a moment and consider the magnitude of our task, lest we fail to appreciate the importance of this hour.

It is estimated that our productive power to-day equals the labor of 500,000,000 men, or one-third of the population of the earth, our products this year exceeding in value $25,000,000,000. Seventeen years ago, in 1890, our products were worth only $12,500,000,000, or exactly one-half of what they are worth to-day.

In 1950 our 85,000,000 people will number 200,000,000; and it is estimated that through invention and discovery their potentiality will then be doubled. But, upon the ratio of to-day, their products then would seem bewildering to us now, being worth $60,000,000,000; while if our banking capital should correspondingly increase from $16,000,000,000 in 1907 it would amount to $40,000,000,000 in 1950, or more than all the banking power of all the world to-day.

To anticipate the conduct of such stupendous business as these figures imply and provide a scientific, sound, and wise financial and currency system is the most important question now before the American people.

THE LACK OF ECONOMIC THOUGHT.

Just eleven years ago we fought the most gigantic political battle since the civil war and established the gold standard.

Starting from this point, I propose to outline a course of legislative action which I assert is essential to the establishment of a scientific, sound, and wise financial and currency system.

Has it ever occurred to you that there is scarcely a law upon our statute books affecting our finances and currency which is clearly

and purely the result of economic thought, and such as would have been passed but for necessity, ignorance, or political cowardice?

All the laws passed from 1860 to 1865 sprang from exigent circumstances and were the natural children of necessity, ignorance, or both. All the financial and currency laws passed as the result of the silver madness were the natural children of ignorance or political cowardice, or both.

The establishment of the gold standard, the fixing of the unit of value and its proper certification, the provision for our subsidiary coinage and the laws of administration necessary to the conduct of the national business mark the limits practically of wise and proper legislation affecting our finances and currency.

THE PROPER RESERVE.

Having adopted gold, then, as our standard of value, it is the touchstone of our credit; and it is only by bringing our credits into contact with gold that their value is proved. I assert, therefore, that there is not a dollar of money in the United States that is fit for reserve except the gold dollar.

It has been suggested on the one hand that we allow the national banks to hold national-bank notes as reserves, and, on the other hand, that we allow them to issue currency based upon bonds other than Government bonds.

The argument is that the national-bank note secured by a Government bond is the same thing, and therefore as good, as a United States note; again, that other bonds are as good as United States bonds.

The whole contention is founded upon a false assumption, and that is that the United States note is in itself a proper reserve—which it is not. It is nothing but a demand obligation, and should have been honored by payment and retirement forty years ago, precisely as France and Japan honored and retired their demand obligations at the close of their respective wars.

Our United States notes are tolerated as reserves because they are currently redeemed in gold coin by the Government; not because of their inherent fitness for that purpose.

The only proper reserve for any country to have is one coined out of its standard of value.

Every United States note, every silver dollar, and every silver certificate in circulation is a burden thrown upon the back of gold, and but for their current convertibility into gold would be at a heavy discount. Therefore not one of them is inherently fit for reserves.

The privilege of issuing bank notes upon a practically unlimited number of bonds and then using the bank notes as reserves would drive every dollar of gold out of the country; and your standard of value would be credit and not gold. Your bank notes would again sell at a discount just as they did in 1862, when they brought 75 cents on the dollar, or in 1864, when they sold for 35 cents on the dollar in gold coin.

Let us settle once for all that the only proper reserve for our banks to hold is gold coin; and that we are most unfortunate in having to carry $346,000,000 of United States notes and $600,000,000 of silver,

maintaining them upon a parity with gold and thereby justifying as best we can their use as reserves. Let us not forget that both our silver and United States notes are serious stumbling blocks, though not insurmountable obstacles to our becoming the financial center of the world, provided they may be practically eliminated in time from our financial calculations.

With all questions of a proper kind of reserve settled, there are those who say that the only mechanism through which we can secure a scientific, sound, and wise currency system is a central bank.

CENTRAL BANK.

Undoubtedly there are some here who may expect or desire to hear what I think upon this subject. Therefore I shall frankly express myself upon its various phases.

First. A great central bank is in my opinion a political impossibility at present.

Second. I am confident that if one were possible there is no such genuine knowledge in this country of the various aspects of the subject involved as would justify any right, proper, or adequate conception of a central bank that would meet the present needs, to say nothing of anticipating the commercial development of the country during the next thirty years.

Third. The establishment of a central bank in 1793 and again in 1817 was one thing; but the establishment of such an institution to-day would be a vastly different thing, when you recall the fact that the present banking power of the United States now exceeds $16,000,000,000, and is greater than the entire banking power of the world in 1890—only seventeen years ago.

A corresponding increase during the next thirty years will make our banking power more than $40,000,000,000, or $3,000,000,000 more than the entire banking power of the world to-day.

From my experience in public life, I venture the prophecy that it will take several years, possibly a quarter of a century, to educate the public to that degree of intelligence and appreciation that will justify a favorable vote in Congress for the establishment of a financial institution adequately meeting the commercial requirements of this great country; and to attempt it now and put such an institution into a strait-jacket would be one of the greatest misfortunes that could befall us.

Let me call your attention to the startling fact that it was four years after the decisive victory in favor of the gold standard in 1896 before the gold-standard act was passed—March 14, 1900.

CENTRAL BANK NOT ESSENTIAL.

I am one of those who do not regard a great central bank as essential to a scientific, sound, and wise banking and currency system for the United States, provided we can unify and coordinate our banking interests, bringing them substantially into one system which will secure universal cooperation and the strength of a combination of our entire banking capital, and even with a central bank the same coordination must be effected.

THE 10 PER CENT TAX.

It may be suggested in this connection that the 10 per cent tax be removed from State bank notes as a relief to the situation. But on second thought no one can hope to see that done, because the reserves required by many of the States are not of the right character or sufficient in amount to protect the public.

Again, the variety of the notes would equal the number of the banks; or, even if each State supervised and furnished the notes of its banks, we should have forty-six kinds of notes, all paying a discount when away from home. The convenience and economy of the public require a currency good everywhere and national in its character.

If practically all the banking interests are brought under national supervision, two things at least will result with reference to the reserves—the quality and quantity will become uniform, and the bank notes will no longer drive out gold by displacing it in our reserves.

WHAT IS ESSENTIAL.

Our reserves must all be of the same character—gold or its equivalent—because gold is our standard of value.

Our reserves in all of our financial institutions must be adequate to prove our credits and protect our depositors.

We must adopt the principle of free interchange of bank-book credits and bank-note credits.

Our bank notes must spring into existence precisely as checks and drafts do through business transactions.

Our bank notes must be related to and based upon the consumable commodities of the country, going out with production and coming in with consumption.

No part of the capital necessary to conduct properly the commerce of the country and pay for production and transportation should be transferred to the investment account and thereby made fixed capital.

Savings from labor, the excess of profits on business, and the income from rents and securities should constitute the investment capital of the country.

Primarily, all classes of useful citizens are interested in productive occupations, and directly or indirectly are affected by them, if not dependent upon them; therefore, if possible, the commercial fund should never be encroached upon for investment purposes. This was the primary cause, and is an important factor in our present trouble.

A TAX ON CREDIT IS A TAX ON LABOR.

Credit is the very soul of modern commerce; and, upon the average, more than 90 per cent of our business is done by check and draft, based upon the book credits of the country. These credits are not taxed and should not be, because such a tax would be a tax upon production, and therefore a tax upon labor.

The remaining 10 per cent of the business consists chiefly of the cash transactions of the masses, who are entitled to a current credit that will cost them just as little as checks and drafts cost the rich

and powerful who keep bank accounts. Such a credit should not be taxed any more than deposits are, because it is, in fact, only another form of deposit.

THE COST OF OUR PRESENT SYSTEM.

The practice, I will not say principle, of finance and currency now in operation in this country is costing the American people at least $150,000,000 annually, in addition to the frightful devastation of values incident to such currency panics as the present, which are liable to occur at any time if some significant failure should precipitate it.

This cost to the people of $150,000,000 arises from the fact that the use of all the capital, represented by the bonds deposited to secure our present bank notes, is lost because the bonds are wholly unnecessary and in their present use and relation are an unmitigated curse.

The use of the capital represented by the bonds deposited to secure Government deposits is also lost, as well as interest at the rate of 2 per cent upon Government deposits, which since the establishment of the national banking system up to the present time would have amounted to about $75,000,000, or nearly twice as much as the loss to depositors resulting from failures of national banks.

There is in the pockets of the people $1,250,000,000 of reserve money, $1,000,000,000 of which at least should be exchanged for current credit or credit currency.

If the banks could exchange their credit notes, amounting to $1,000,000,000, for $1,000,000,000 of these reserves now in the pockets of the people, they would increase their liabilities only 8 per cent of the $12,000,000,000 deposits while they would increase their reserves 145 per cent.

If any other business in the world, except one politically managed, were involved, this waste of $150,000,000 annually would be stopped at once.

Who pays for this waste of capital? American labor. Upon labor rests the entire cost of the banking business, which is a necessary evil incident to the production, transportation, and sale or disposition of $25,000,000,000 worth of products annually.

BANK UNIFICATION.

Having already spoken of proper bank reserves, I shall now speak first of bank unification and cooperation, and, second, of credit currency.

Practically all the business that distinguishes a trust company from a regular bank to-day has grown up since the passage of the national-bank act.

A law should be passed giving to the national banks the right of exercising in the respective States where located all the powers of executors, administrators, guardians, and trustees.

Who will oppose granting these powers to the national banks? Do you answer: "The trust companies in the various States?" If so, they can give but one reason, and that is cupidity and greed, evidenced by the fact that upon a much smaller reserve than prudence justifies they conduct a regular banking business and carry on the trust business in addition; for upon the passage of a law authorizing the

national banks to do a regular trust business the trust companies could nationalize and have in turn all the advantages of the national-bank act.

Unless this step is taken, the advantages now enjoyed by the trust companies will gradually but inevitably compel the national banks to surrender their charters for trust-company charters; for if a trust company is required to carry only one-fifth or one-half the reserves of a national bank, it can afford to pay a much higher rate of interest upon deposits and eventually undermine the national bank.

These conditions are constantly confronting those who are starting new financial institutions; and, of necessity, the greater margin of profit promised under trust-company laws determines the decision of those interested, they relying upon their own wisdom as to what are proper reserves.

THE ENCROACHMENT OF TRUST COMPANIES.

The following tabulated statement demonstrates beyond the possibility of doubt the gradual encroachment of the trust companies and the final extinction of the national banking system, solely because of the reasons stated:

NATIONAL BANKS.

	Capital.	Deposits.
1800	$642,073,676	$1,521,745,665
1900	621,536,461	2,458,092,757
1907	896,451,314	4,319,035,462

TRUST COMPANIES.

1890	$70,676,247	$336,456,492
1900	126,930,845	1,028,232,407
1907	276,146,081	2,061,623,035

STATE BANKS.

1890	$189,700,000	$553,100,000
1900	237,000,000	1,266,700,917
1907	471,163,000	3,068,649,860

CAPITAL.

	1890.	1900.	1907.
National banks	$642,073,676	$621,536,461	$896,451,314
Trust companies and State banks	259,376,247	363,930,845	747,306,081

DEPOSITS.

National banks	$1,521,745,665	$2,458,092,757	$4,319,035,402
Trust companies and State banks	889,556,492	2,294,933,314	5,130,272,895

CREDIT CURRENCY.

Banks are created by the people; therefore they are the servants of the people.

Every depositor of a bank should have the option of taking his credit at the bank in such form as will best serve his convenience—either a book credit subject to check or a current credit in bank notes.

The masses of the people who use currency instead of checks are entitled to have just as economical and cheap credits as the rich and powerful who keep bank accounts; and the people have the right to insist that the current credits which they use shall be currently redeemed by the banks in gold coin, and so constantly measured in our standard of value, which is gold.

The laborers, the manufacturers, and the merchants of the country have the right to have their current credits related to and based upon their products, the consumable commodities of the country, the things we eat, wear, and use—the things that always have a cash value and are worth the present year more than $25,000,000,000.

The cotton planter who has already picked, ginned, and baled $10,000 worth of cotton and is entitled to a loan at his bank for $10,000, and who obtains it by giving a warehouse receipt for the cotton already prepared for the market, should have the absolute right, after the credit of $10,000 has been granted to him, of taking it in current credits in the form of bank notes, with which he can proceed to pay for picking, ginning, and baling the rest of his crop.

The elevator owner who is entitled to a loan of $100,000 at his bank, and who turns over as security for his loan of $100,000 an elevator or warehouse receipt, the loan having been granted to him and placed to his credit, has the right to take any part or all of this credit on the books of the bank in the form of current credits or bank notes, which can be sent into the country to pay for the harvesting, thrashing, and marketing of more of the wheat in the territory from which that already in his warehouse has come.

So, any person who has a credit at a bank has an equal right to take it either in a book credit, subject to his checks, or in a current credit or bank notes.

The notes of our laborers, our farmers, our manufacturers, our merchants, and producers of every kind and character are, economically speaking, the titles to the products of our labor and capital, and furnish the only true basis of a currency in any country; for such a currency must reflect the ever-varying conditions of trade.

A strictly commercial bank does a business based upon thirty, sixty, and ninety day notes, which are constantly being made and as constantly paid, because the requirements of the makers are always changing with the constant production and constant consumption of commodities.

The bank loaning its money upon securities is not a commercial bank at all, but an investment bank, and the basis of its business is fixed because its collateral may remain the same for years at a time. On the other hand, the discounts of a commercial bank never remain the same for twenty-four hours, some notes being paid and new ones discounted. Therefore, you can only have a true currency of com-

merce when it is related to and based upon the consumable commodities of the country.

Some banks do both a commercial and an investment business, but so far as any bank does an investment business it is using the commercial fund for investment purposes, and therein lies the root or primary cause of our present commercial difficulty—an encroachment upon the commercial fund for investment purposes.

It therefore follows that the national banks should have the right to issue current credits just as freely as they take deposits subject to check, neither being subject to limitation, if only adequate reserves in gold are maintained.

This power, with that of acting as executor, administrator, and trustee, would have the effect of bringing into the national system practically all the trust companies and State banks, if our recent experiences have confirmed the public opinion that the required reserves of the national banks are none too high.

COOPERATION SHOULD BE COMPELLED.

If opposition developed on the part of either the State banks or the trust companies, the people, who have $12,000,000,000 of deposits in our banks and are interested in a proper and adequate reserve to protect them, should compel cooperation.

The people have the right to insist upon uniformity in their banking system if such uniformity is essential to the safety and convenience of the public. Cupidity and unconscionable greed must be the only source of any opposition that arises.

THE ADVANTAGES OF CREDIT CURRENCY.

If our banks were authorized to convert their bank-book credits into bank-note credits upon the demand of depositors, there never would be a currency famine such as we are suffering from now.

Mark this: There is not the slightest difference in principle between bank-book credits and bank-note credits, for one is a credit subject to order and the other is a cashier's check to bearer. Tell me, would it make the slightest difference to a bank whether it owed a million to depositors subject to check or a million in cashier's checks? Certainly not. The Bank of France owes ten times as much to note holders as it does to depositors, owing about $1,000,000,000 to the note holders and only about $100,000,000 to depositors.

THE HABITS OF THE PEOPLE CONTROL.

If the customers of a bank had their choice between these two forms of credit, the habits of the people would determine whether the bank owed more to depositors subject to check or to note holders.

The people of Scotland for one hundred and forty-three years never made a deposit subject to check, but only exchanged their time notes for the cashier's checks payable to bearer or current credits, credit currency. Their habits are now so completely changed that they have only $35,000,000 of cashier's checks in circulation, while the deposits subject to their order amount to $500,000,000.

The Bank of Germany has outstanding $450,000,000 of cashier's checks or notes and has deposits amounting only to $150,000,000.

The Bank of France has issued about $1,000,000,000 of cashier's checks or notes, while the deposits amount to only one-tenth as much, or $100,000,000.

On the other hand, the banks of Canada with the right of capital issue have only $75,000,000 of cashiers' checks out, while their deposits amount to $600,000,000.

In 1811 the notes of the First United States Bank outstanding amounted to $5,037,000 and the deposits were $6,900,000.

In 1832 the notes of the Second United States Bank outstanding amounted to $21,000,000 and the deposits were $22,000,000.

In 1860 the Bank of the State of Indiana, which alone of all the Indiana banks had withstood the panic of 1857, had $5,753,000 notes out and only $1,200,000 of deposits.

In 1857 there were 515 banks in the six New England States clearing through the Suffolk Bank of Boston, and there are about the same number of banks in those States to-day. Their deposits amounted to only $25,000,000, while their notes outstanding amounted to $55,000,000.

Without any possible fear of successful contradiction, therefore, I assert that there is absolutely no difference in principle between bank-book credits and bank-note credits, and that where there is a perfect interchangeability between the two the habits of the people will determine whether the notes outstanding or the deposits are the larger.

CREDIT CURRENCY NOT EXPANSION.

Credit currency does not mean expansion, nor does it mean inflation.

Whenever I fall in with anyone who has never studied this question and thought it out he almost invariably suggests as an objection that it means expansion or inflation or both, when neither is the possible consequence of a free issue of credit currency.

I assert that credit currency does not mean or lead to expansion.

Ricardo says:

> The issuers of paper money should regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great or too little while it preserves the same value as the standard.

What is expansion? It is increasing the liabilities of a bank without correspondingly increasing its reserves. The reserves may all be in gold coin, and yet the bank may expand to a dangerous point, even to the point of destruction; for it could expand its liabilities until its reserve was only 1 per cent. But such expansion would ordinarily be fatal, even though the 1 per cent were in gold coin. When the management of a bank considers the question of increasing its liabilities, the only important matter is whether its reserves will justify it. It is a matter of no practical importance whether the increased debt is a ledger credit, to be checked against, or a cashier's check, payable to bearer, which is a current credit or credit currency.

Therefore I assert that a credit currency can not in any way lead to expansion; but that it would rather tend to prevent it, as appears in what follows.

CREDIT CURRENCY NOT INFLATION.

What is inflation? It is basing one credit upon another credit; that is, basing a bank's liabilities upon credit such as our present bank notes, which are in turn based upon another credit, a Government bond, which is due in about twenty-five years.

Now, would any banker hold a cashier's check payable to order, whether of the weakest or the strongest bank in the United States, as a part of his reserves? You answer, "No; under no circumstances. He would send it home as directly and swiftly as he does checks and drafts for immediate redemption."

Would a banker be any more likely to hold a cashier's check payable to bearer, whether of the weakest or the strongest bank, as a part of his reserves? You answer, "No; under no circumstances. He would send it home as directly and swiftly as he does checks and drafts for immediate redemption."

But the cashier's check, payable to bearer, is a current credit, or credit currency.

Therefore I assert that credit currency can not under any circumstances lead to inflation. On the other hand, it will be a distinct prevention of inflation such as we are suffering from to-day by using bank notes as reserves. Because the bank's obligations in the form of cashier's checks or credit currency will be sent home with the same directness and swiftness that checks and drafts are, always keeping the currency of the country down to the lowest point of necessity, and yet always meeting the largest demands of trade and commerce.

I challenge anyone to deny and contravene the foregoing propositions with regard to expansion.

Now, do not forget this: A banker may make poor loans upon overvalued securities or high-priced goods or bad personal risks; but these are cases of faulty business judgment on the part of the banker and have absolutely nothing to do with bank-credit expansion or bank-credit inflation.

CREDIT CURRENCY COORDINATED TO BUSINESS.

Therefore I assert that credit currency, when put upon the same footing in all respects as checks and drafts, will, instead of meaning or leading to inflation, prevent inflation, for our currency will then be perfectly coordinated to the needs of business, being neither too great nor too little, the cashier's checks springing into being with business needs, and automatically disappearing precisely as checks and drafts do.

This is not a theory, but the experience of two hundred years. All the rest of the civilized world are availing themselves of this principle to-day, and are using credit currency to the extent of about $4,000,000,000, or of more than 20 per cent of their entire banking capital; while, on the other hand, the United States, with $16,000,000,000 of banking power, more than three-sevenths of the banking power of the world, has not one cent of current credit or credit currency in use.

BOND-SECURED CURRENCY NOT COORDINATED TO BUSINESS.

On the other hand, no civilized country now has a bond-secured currency such as we have; and no civilized country of consequence

ever did have such a currency except one, and that is Japan, who copied it from us only to repudiate and discard it in favor of a credit currency.

When Secretary Chase forced our bond-secured note scheme upon the country in 1863, it was purely a bond-selling project, and it is only a bond-speculating device to-day. There has not been a single hour from the time when the first note was issued up to this moment when the notes outstanding bore any distinct relation to the business which was being transacted in the country.

Mark this: From 1882 down to 1891, during a period of great business expansion, the bank-note circulation decreased from $365,000,000 to $122,000,000, simply because there was no profit in holding the bonds. From 1891 down to this very autumn there have been many years when the bank-note currency has actually contracted during the fall months when it ought to have expanded at least $250,000,000, simply because it paid to sell the bonds; and there have been quite as many years when there has been an expansion from January to July, though there ought to have been a contraction of at least $250,000,000.

AMOUNT OF BANK NOTES NOW HELD AS RESERVES.

Note this fact and ponder well. Ask yourselves whether you want to go further in the direction we are now moving.

Already $200,000,000, or nearly one-quarter of all the reserves now held by the banking institutions of the United States, are in bank notes. That is, of the $12,000,000,000 deposits in the banks of the country between $2,500,000,000 and $3,000,000,000 are based upon bank notes, mere promises to pay, and these mere promises to pay are again in turn based upon a debt of the Government, another mere promise to pay, which is not due for about twenty-five years, and then to be paid, if at all, out of taxes to be collected.

How long will it be before all of our deposits will be based upon mere promises to pay, which in turn will be based on the debt of the Government, the debt of States, the debt of municipalities, and the debt of railroads?

THE DANGER OF WORSE DISASTER.

With these astounding facts pressed upon your attention, can any man—any honest, intelligent, fair-minded man—deny that there must be something radically wrong, fundamentally wrong, disastrously wrong with our present currency-making devices; and that to them can be traced with unerring certainty the inexcusable calamity that has darkened our commercial sky this fall in the very midst of abounding prosperity?

Yet, while we are still in the throes of our commercial catastrophe, there are those who, ignorant of the causes and thoughtless of the future, would have us take another plunge in the same direction by adding to our overwhelming load of fixed, immobile, bond-secured notes another mass of bank notes based upon State, municipal, and railroad bonds. Could anyone conceive and plan a more gigantic scheme of inflation?

I now declare that if this Government continues its present policy of injecting into the arteries of trade and commerce a fixed, bond-secured currency, by swapping securities, by bond speculations, by

Treasury manipulations, and by Executive orders, we shall continue to move only with an accelerated speed, and with the directness of a musket groove, and the absolute certainty of passing time, toward a commercial breakdown—a commercial crisis, a commercial tragedy—compared with which the present currency panic is only a pleasant summer outing.

INTELLIGENCE AND COURAGE CHALLENGED.

Are we such business fools, such economic idiots, such political cowards, that we will not move even though the heavens fall? And perchance we do move, shall we jump into the fathomless abyss of basing credit upon credit instead of basing all bank credits, whether deposits or note-issues, upon gold coin?

CREDIT CURRENCY IS SAFE.

I submit that beyond all possible doubt there is a complete want of any coordination between our business and our present currency. But for the purpose of an argument, let us admit that the currency is sound, and that no one has ever lost a dollar in holding the notes, although at one time they were worth only 35 cents in gold coin.

Now, if there is such a thing as an absolutely sound currency which will at the same time perfectly reflect the varying conditions of trade and commerce, and, with never failing accuracy, respond to every call and meet every requirement, let us with intelligence, courage, and patriotism proceed to adopt it.

Of course, above all else it must be absolutely sound, and every dollar of it must be as good as gold. Scotland has had such a currency for more than two hundred years. France has had such a currency for more than one hundred years. Indeed, practically all the civilized nations of the world, except our own, have such a currency to-day, and therefore we must conclude that it is sound.

Canada has had such a currency for forty years. No one has ever lost a cent by holding one of her bank notes. But Canada borrowed her banking law from Massachusetts, and before the civil war Massachusetts was the very center, all things considered, of the most perfect banking system the world has ever seen, the Bank of France, possibly, alone excepted, and that system was the outgrowth of the requirements of trade in that section.

It was so good in those early days, when the stage coach carried the mail and there were neither railroads nor telegraphs nor telephones to insure early and accurate knowledge of the changing conditions of the then remote parts of New England, that we have had nothing to compare with it since.

In many other respects the Atlantic and the Pacific are not so distant from each other as some of the points in the interior of New England were then from Boston, where every bank in New England had to redeem its notes every day in coin. These notes were so good that they sold at a premium of from 1 to 5 per cent in all the western centers of trade.

A GUARANTY FUND.

Indeed, so absolutely sound was the banking of New England in those days before the war that it would have taken a tax of only one-

eighth of 1 per cent upon all the notes issued to pay the notes of the failed banks, while it would have taken a tax of twenty-two one-hundredths, or more than one-fifth of 1 per cent, on all the notes so far issued by the national banks to pay the notes of the national banks that have failed.

Now, if such a system of banking grew up in New England, with very few legal limitations and under such adverse conditions, how much better ought our system to be if it were founded upon the same principles. But let us suppose that the banking for the next forty years should prove upon the average as safe as for the last forty years; then a tax of one-fifth of 1 per cent would pay the notes of failed banks.

Now, it is a matter of record that about 80 per cent, or four-fifths, of all the deposits of national banks which have failed have been paid; therefore an annual tax of one-fifth of 1 per cent would pay the remaining 20 per cent. Hence, a general guaranty fund of 5 per cent would last one hundred and twenty-five years; and of 2 per cent would last for fifty years. Certainly there is no insurance, life or fire, that is to be compared in point of safety with that proposed here.

I assert, then, that in point of safety a credit currency, with a guaranty fund of 5 per cent, is equal in point of safety to our present national bank notes; and it may be claimed that both are perfectly safe if the proper reserves are held to protect them.

BANK-CREDIT NOTES VERSUS BOND-SECURED NOTES.

When we come to compare a credit currency and a bond-secured currency in their relation to the business of the country, the advocate of a bond-secured note is compelled to admit that for forty years it has failed utterly, indeed has never failed to fail, to show the slightest variation because of the changing conditions of trade. As I have before stated, the circulation fell from $365,000,000 in 1882 to $122,000,000 in 1891, and just as strange and anomalous circumstances are attending it every month of the year.

Indeed, there has not been a single fall during all these forty years when we have not been hanging over the brink of a currency panic; and our danger has always been directly in proportion to the size and price of our crops—the possibility of panic and ruin increasing with our prosperity. What a system it has proved to be! The greater our crops and prosperity, the greater our danger and the more imminent our ruin!

On the other hand, the principle of converting our bank-book credits into bank-note credits, the adoption of a true credit currency, will bring such a perfect harmony between our business and currency that no season of the year will seem any different from any other season, so far as our supply of currency is concerned—it will never be too large, never too small, always just enough. The experience of every other civilized country in the world justifies this assertion.

CREDIT CURRENCY ADJUSTMENTS.

Now, mark this, wherever a credit currency is in use, it automatically registers every change in trade, year in and year out, month by month, and day by day.

In absolute confirmation of this statement, I call your attention to the currency fluctuations in Japan, Scotland, Austria, France, Germany, and Canada; and I hope that you will study them, for they are a mathematical demonstration of the principle of credit currency.

Name of country.	Per-cent-age of variation.	Amount of variation.	Per capita variation.	Times of variation per year.	Month of maximum variation.	Month of minimum variation.	Amount of variation United States would have relatively.
Japan	21.1	$24,222,000	$0.48	One	January	May	$40,800,000
Scotland	15.8	5,465,000	1.22	Two	July and December.	April and September.	103,700,000
Austria-Hungary.	20.9	62,530,000	1.28	Three	January, May, November.	March and July.	108,800,000
France	7.8	67,600,000	1.73	Two	January and November.	April and July.	147,050,000
Germany	39.7	120,000,000	2.12	Four	March, June, September, December.	February, May, August, November.	180,200,000
Canada	37.0	22,733,756	3.29	One	October	January	279,650,000

THE TAX ON ISSUES.

Since I have given so many instances already of where the note issues of banks were in excess of deposits, I presume it is now clear to all that there is absolutely no difference in principle between bank deposits and bank notes or bank-book credits and bank-note credits, both being debts to the people—the one a liability subject to check or order, the other a current liability.

Now, no one would think of taxing deposits in our commercial banks, because such a tax would be a burden upon production. But a tax upon production is a tax upon labor; therefore a tax upon bank notes, which are only another form of deposits, is also a tax upon labor.

Is it not perfectly plain that a tax upon the $1,000,000,000 bank notes of the Bank of France would be as distinctly a burden upon labor as a tax upon the $100,000,000 of deposits held by the Bank of France? So with the two United States banks and the 515 New England banks which cleared through the Suffolk Bank of Boston before the civil war and had $55,000,000 of notes in circulation and only $25,000,000 of deposits.

Who use these notes? The people. Then who must pay the tax? The people.

If the Government should impose a tax of $2 upon every pair of shoes that were sold, who would pay the $2—the man who bought them or the man who sold them? Shoes would be just $2 per pair higher, that is all.

I assert, therefore, that whatever tax is imposed upon bank notes must be paid ultimately by labor. Therefore there should be no tax in principle on either deposits or bank notes.

HIGH TAX A MISTAKE.

But there are those who, simply because they have not thought out this matter, may say: "You must put a high tax, say 6 per cent, upon note issues to drive them home when they are no longer needed."

I assert, without any fear whatever of successful contradiction, that a tax that is so high as to destroy all profit in note circulation will also completely destroy one of the two incentives bankers have for sending the notes home, and therefore will defeat the very purpose for which the high tax was imposed. Indeed, a high tax will tend rather to keep the notes out than to drive them home.

The reason is apparent. Any bank, upon receiving the notes of a competing bank, would have, under a proper system, two motives for sending the notes directly home for redemption.

The first motive would be to get its own notes out and make the profit that this competing bank is making. For instance, if the tax is 2 per cent, and the local interest rate is 6 per cent, it would want to make the difference of 4 per cent, and so would send home the notes of the competing bank.

The second motive would be to convert the notes, which are a mere credit, into reserve money, because then the bank can loan from four to six times as much as it could if it were to loan the notes themselves out again.

It is therefore clear that a tax of 6 per cent, where the rate of interest is 6 per cent, would absolutely destroy the first motive for returning the notes to the maker.

All business is based upon selfishness, and certainly the banking business is no exception to the rule. Indeed, banking is the very refinement of business, and therefore the very refinement of selfishness.

THE HIGH-TAX ADVOCATE.

But the advocate of the high tax may reply: "I can deposit with the Government lawful or reserve money to the amount of the notes I have outstanding, and so retire that amount of currency and relieve myself of the tax when the currency is no longer needed."

But just what has the high-tax advocate accomplished, should he pursue this course? He has put into the Treasury and therefore has exchanged reserve money for credit notes to the amount of his deposit; a most undesirable thing if the reserve money were to remain there.

But the reserve money would not remain in the Treasury, for any sensible Secretary of the Treasury would immediately pay it out again; and so we should have no contraction whatever. The reserve money would be redeposited in the banks, and the bank notes would continue in circulation and no tax would be paid upon them.

Such a scheme would be an utter failure in every respect, simply because it is in violation of both commercial and economic law.

So far as I can ascertain, the whole theory of a high tax has sprung from the experience of the clearing houses in retiring their certificates. But the facts are entirely different.

In the case of the clearing houses, the certificates never leave the immediate circle of membership, and, therefore, can be retired at will by actually withdrawing them; while the bank notes may circulate in every State of the Union, some of them being in the cotton fields of Mississippi, some of them in the shoe factories of Massachusetts, some of them in the cornfields of Iowa, and some in the lumbering camps of Oregon; *and the banker has no way of getting possession*

of them unless they are returned to him for redemption in the regular course of business.

A REASONABLE TAX.

Now, there are three good reasons why there should be a tax of some kind upon true bank notes.

First. There should be a small tax, say one-fourth of 1 per cent per annum, to create a guaranty fund to pay the notes of banks that fail; for every note holder who lives at a distance from the bank of issue is an involuntary holder of the notes, and public policy demands that he should be protected, in order that our currency may be good beyond peradventure and acceptable everywhere.

Second. There should be a tax of possibly 1 per cent to pay the cost of transmission and redemption.

Third. Since the banks of the country have adopted the practice of paying upon the average about 2 per cent upon bank balances, it would be reasonable to impose a tax of this amount upon true bank notes, since they are only another form of deposits.

But the total tax should not exceed 2 per cent, out of which the guaranty fund and the cost of transmission and redemption would be taken.

CURRENT REDEMPTION.

Let every bank in the United States be brought within twenty-four hours of a redemption agency and let all the cost of the transmission and redemption of the notes be paid by the United States out of the 2 per cent tax imposed upon the notes; then every bank note issued will be placed upon the same footing with checks and drafts and will be sent home as directly and swiftly as checks and drafts are, and our bank notes will always be adequate to the demands, no more, no less, expanding automatically to meet every call and retiring automatically as the demand ceases.

This is precisely what is happening to-day in Japan, Scotland, Germany, France, Canada, and other countries, and be it remembered that it is wholly due to the law of economic gravitation, expressed in selfishness, cupidity, greed, and certainty of profit, and not in any instance to a tax upon note issues.

A PRACTICAL ILLUSTRATION.

I assert that if last July, when the demand for currency began, the banks of the United States had been authorized to convert their bank-book credits into bank-note credits, we should have escaped the calamities growing out of the currency panic this fall.

Now, note just what would have happened. There is an extraordinary demand for currency in this country, beginning with July and terminating about the 1st of January, amounting to about three hudred millions of dollars, and it is known that the banks in our great commercial centers, like St. Paul, Omaha, Kansas City, St. Louis, New Orleans, Chicago, and the cities throughout the East, are owing to the banks throughout the country districts a sum largely in excess of this amount.

If the banks located in these commercial centers had been authorized to issue cashier's checks payable to bearer, or credit bank notes,

they could have responded to this demand for three hundred millions of currency and paid off the bankers in the country districts without increasing their liabilities to the extent of one dollar and without adding one single dollar to their reserves, for the banks issuing these cashier's checks or bank notes should carry the same reserves against these bank notes as they now do against their deposits subject to check or draft. It would have been simply a matter of bookkeeping; the banks in the commercial centers would have charged the banks in the country districts with the amount of notes sent and credited their own cashiers with a similar amount.

There has not been expansion to the extent of a single dollar; there has not been inflation to the extent of a single dollar, and when the demand through the country districts began to diminish in January these cashier's checks or credit notes would be returned to the banks that issued them and be paid in cash or deposited to the credit of the bank sending them in, and so be reconverted into a bank-book credit subject to check.

CLEARING-HOUSE CERTIFICATES.

When universal panic struck our beloved country in the very midst of abounding prosperity and we were in the throes of commercial distress, natural law pointed out the way. It was through the use of current credit, related to and based upon the consumable commodities of the country—the things we eat, wear, and use.

What was it? It was the clearing-house certificate and cashier's check—a pure credit currency, This sprang into being under the pressure of necessity, and will automatically disappear as that necessity recedes, perfectly adjusting itself to every condition from day to day.

These clearing-house certificates and cashier's checks were issued without authority of law and under very great disadvantages, because it was necessary to successfully evade the law. And yet, will any man say that this credit currency did not save us from a commercial disaster which would beggar the imagination of any human being?

Has this great lesson taught us nothing? God forbid.

Now, mark this: While all these credits will soon disappear, you will find that the immobile, sodden mass of Government bond-secured notes will remain to a single dollar and will pile up and crowd themselves into the reserves of our banking institutions—State banks, trust companies, private banks, and even into our national banks, forcing out a corresponding amount of gold, and so undermining the $12,000,000,000 of credits in this country.

I warn you now against the fathomless abyss of inflation we are slowly but certainly approaching. Shall we stop now or proceed and hasten the day and guarantee the result by adding State, municipal, and railroad bonds as a basis of bank currency?

QUESTION MUST BE SETTLED RIGHT.

Gentlemen, until we adopt this principle and relate our currency to and base it upon the consumable commodities of the country, we shall experiment in vain. As I wrote to Secretary Cortelyou, "All these superficial tricks and mechanical devices will fail; and, after stumbling about for five, ten, fifty, or possibly one hundred years,

we shall come back to these fundamental economic principles which work economy and justice to all who are affected by them."

Gentlemen, I know that this question will never be settled right until it is submitted to the people for decision precisely as the question of the establishment of the gold standard was submitted to them, and I know equally well that the people's intelligence and patriotism will decide this question as that was decided—right.

I know that if the Senate and the House of Representatives do anything before a great educational campaign upon this subject, it wil simply be to sew another rotten patch upon an old ragged garment already well-nigh covered with rotten patches.

THE QUESTION RESTS WITH THE PEOPLE.

This question is not up to Congress now—it has passed that. It is up to the people of the United States; it is up to you, the men within the sound of my voice. Will you do your duty and make this question the issue of the hour, or will you let the politicians make your issues for you?

There is not a laborer, not a manufacturer, not a merchant in the United States to whom this question is not of vastly greater importance than all other questions combined. Indeed, when we consider what may happen to the commercial interests of this country at any moment, all other questions sink into nothingness in comparison.

Labor is now paying a penalty of $150,000,000 a year, as I have pointed out, to keep up the grotesque farrago of our financial currency practices. Hundreds of thousands of men are now idle; two millions of men may be idle as the result of present conditions; and, so long as we continue these conditions, will we constantly jeopardize the prosperity of the people and the welfare of the whole country. For it will be an accident every fall if we get through without a repetition of our present experience, bitterly intensified, too, should the misfortune overtake us when general conditions were bad.

Mark my warning to-night. I challenge the attention, the intelligence, the self-interest, the patriotism, and the conscience of the American people; and, in the face of what has transpired during the last thirty days, I charge all the responsibility for the future upon the people of the United States, and especially upon you who hear me now, for you have it in your power to demand a full discussion of this question before the people, and a verdict at their hands. Will you do it?

THE NEEDS OF THE HOUR.

As the contest for the gold standard brought confidence, strength, stability, progress, and prosperity to our country, so will a campaign for a scientific, sound, and wise financial and currency system lead us out of our difficulty, protect us against like dangers and immeasurably greater misfortunes in the future, and guarantee to us permanent conditions.

In the first throes of this currency panic I was asked about the advisability of an extra session of Congress, and replied: "No; we want no more unrest, apprehension, destruction of credit, and disturbance of confidence in American business; we want rest, recupera-

tion, construction, and a revival of faith and hope in American manhood."

We want less sensation and more sense.

We want less dynamite and destruction and more cement and construction.

We want less constitutional anarchism and more constitutional liberty.

We want less governmentalism and more individualism.

Remember! remember! my countrymen! remember! that the cornerstone of this Republic is a free man. Physically free, intellectually free, religiously free, politically free, commercially free. That its very foundations rest upon local self-government, and that if it endures forever it must be through the conscience, intelligence, and strength of the people themselves.

All our surpassing achievements and national glory are traceable to the individualism and personal initiative of the American people, and our sole hope of a triumphant and transcendent future is in an absolutely free man.

Let us see to it then that no citizen secures any advantage whatever over any other citizen through the forms of law, but that all have and enjoy equal opportunities under the operation of absolutely equal and just laws.

Let us see to it that no corporation secures any advantage whatever over any other corporation through the forms of law; that no corporation secures any advantage whatever over any private citizen through the forms of law, and that no corporation secures any advantage whatever over the people themselves through the forms of law, but that every grant of power by the people to a corporation giving it a legalized monopoly shall have its corollary and counterpart in legalized regulations.

Whatever our problems may be, however difficult our tasks may be, I have absolute confidence in the intelligence and conscience of the people to solve and settle them wisely and justly, and I believe that they will not condone crime or wrongdoing of any kind at any time or anywhere.

I believe that the American citizenship of 1907 is morally and intellectually better and higher than that of one hundred years ago. I believe that we are better to-day than we were yesterday, and that we shall be better to-morrow than we are to-day.

I believe that American manhood and womanhood, man for man and woman for woman, are vastly superior to the manhood and womanhood of any other nation on this globe.

Let us respect ourselves as we are entitled to, and then others will respect us; and let us so live that all nations will recognize in the typical American the ideal individual citizen of the world for all the centuries to come.

PLATFORM FOR SCIENTIFIC, SOUND, AND WISE FINANCIAL AND CURRENCY SYSTEM.

We demand that the reserves in our banks shall be in gold coin, and shall be ample to prove their credits and to protect their millions of depositors, who have $12,000,000,000 to their credit.

We demand that the depositors shall have the option of taking their credit in the form of a book credit subject to check, or in the form of a current credit in bank notes.

We assert that the masses, who use currency instead of checks, are entitled to have just as economical and cheap credits as the rich and powerful who keep bank accounts.

We demand that the currency of the country shall be related to and be based upon the products of our labor, the consumable commodities of the country, the things we eat, wear, and use, and that our currency shall be measured in gold by currently redeeming it in gold coin. Such a currency is absolutely sound, because as good as gold, and comes into existence with purchase and production, and disappears with sales and consumption. Therefore it always perfectly responds to the ever-varying demands of trade.

We demand such a reform of the financial and currency practices of the United States as will save to the laborers, manufacturers, and merchants the $150,000,000 per annum now wasted because our reserve and banking capital are uselessly employed.

In support of these propositions we cite the following illustrations of where bank deposits and bank notes are interchangeable:

	Deposits.	Note issues.
The Bank of France	$100,000,000	$1,000,000,000
11 Scotch banks	500,000,000	40,000,000
35 Canadian banks	600,000,000	75,000,000
510 New England banks in Suffolk system	25,000,000	55,000,000

We assert that a credit currency, currently redeemed in gold coin, does not mean expansion and can not lead to inflation; and in support of this proposition we submit the following illustrations:

	Permissible issue.	Actual issue.
France	$1,000,000,000	$929,000,000
Canada	94,000,000	83,000,000
Scotland	148,000,000	40,000,000
First United States Bank	10,000,000	5,000,000
Second United States Bank	35,000,000	23,000,000
Bank of Indiana	6,600,000	4,900,000
Bank of Iowa	2,096,000	1,400,000
New England Suffolk system	123,000,000	55,000,000

LIFE OF A CREDIT NOTE VERSUS A BOND-SECURED NOTE.

The life of a true credit note or the time it remains out in circulation is absolute proof, indeed mathematical proof, that these notes are always just adequate to and never in excess of the requirements of trade. To illustrate this fact we submit the experience of the Scotch and Canadian banks, and of New England banks clearing through the Suffolk Bank at Boston, and the record made by the national banking system, as follows:

	Days.
The note of the Scotch banking system remains out	18
The note of the Canadian banking system remains out	30
The note of the New England (Suffolk) banking system remained out only	45
The average life of our national-bank bond-secured note is just the life of the paper upon which it is printed	730

Therefore, it is demonstrated that the life of our bond-secured note bears no relation to the business of the country.

We assert that it is wholly immaterial whether there is only 1 central bank of issue, as in France, or 11 banks of issue with branches, as in Scotland, or 35 banks of issue, with 1,600 branches, as in Canada, or whether there are 515 independent individual banks of issue, as there were in New England before the war, or 5,000 or 25,000 banks of issue; and that it is wholly immaterial whether each bank of issue has $25,000 capital, or $250,000 capital, or $2,500,000 capital, or $25,000,000 of capital—the principle is the same.

We assert that the law controlling the movement of credit, constantly measured in gold, our standard of value, unless unwisely interfered with by some foolish device of man, is as certain and absolute in its operation as the law of gravitation or any other law of God.

The absolute proof of this statement is found in the daily redemption of checks and drafts and cashier's checks payable to order; and the operation of this great law would not be suspended if the cashier's checks should be made payable to bearer, a current credit, and the customers of our banks should take these cashier's checks because they desired a current credit in preference to using their own checks which are not current, but only pass by indorsement.

We base this declaration upon natural law and the experience of all the civilized nations of the world.

FINANCIAL AND CURRENCY PRINCIPLES.

REPORT NO. 5629.

FIFTY-NINTH CONGRESS, SECOND SESSION.

FINANCIAL AND CURRENCY PRINCIPLES.

[House Report No. 5629. Fifty-ninth Congress, second session.]

Mr. FOWLER, from the Committee on Banking and Currency, submitted the following report:

AN IMPORTANT PRINCIPLE.

Your committee reiterates its often repeated assertion that bank-book credits are identical with bank-note credits, and that it should be at the option of a depositor of a bank to say whether he shall have a current credit of the bank or a book credit subject to his check.

The currency commission, representing the American Bankers' Association, has recently enunciated this principle so well in the following language that your committee quotes it with unqualified approval:

> A bank note is essentially the same in principle as a deposit payable on demand. It is a book deposit converted into such form that it passes current. It resembles in character a demand certificate of deposit or cashier's check—simply a current deposit liability of the bank.

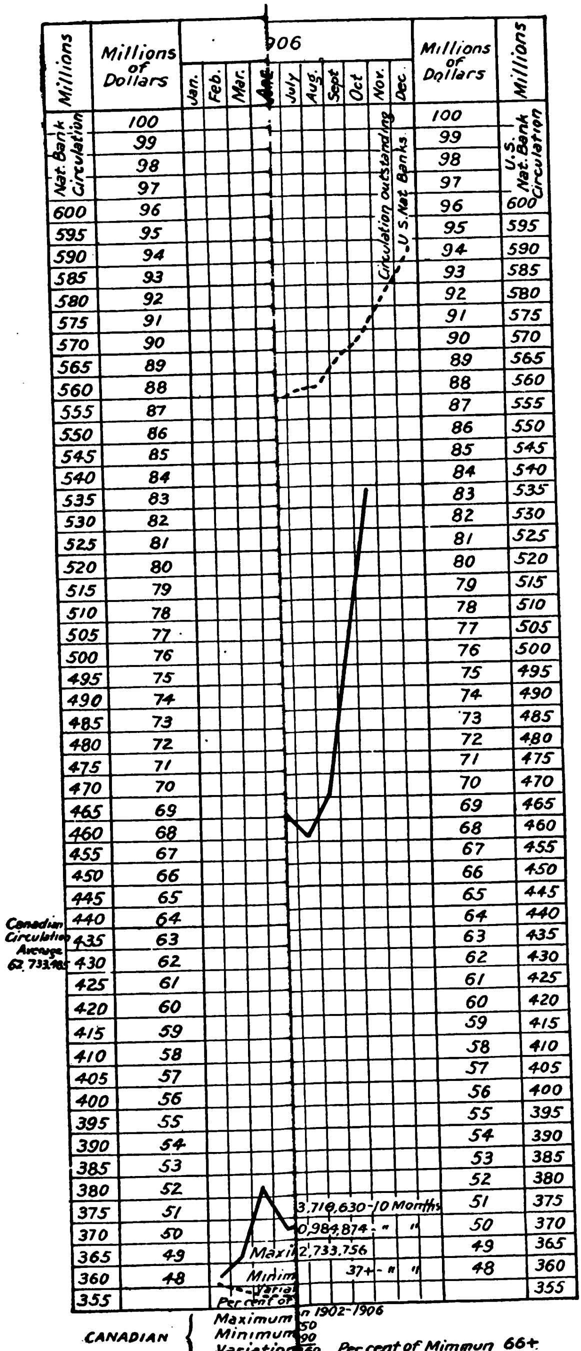
For the purpose of illustrating acutely the importance of incorporating this principle into our banking laws your committee challenges the attention of the House with the words of its chairman, Hon. Charles N. Fowler, uttered at St. Louis, October 19, 1906, during the recent convention of the American Bankers' Association:

> It has been observed that during the crop-moving period this year, from July 1, there will have to be sent into our great agricultural sections $200,000,000 of currency, or money for the purpose of moving the crops. Let us assume that this amount is due from the banks in the money centers to the banks located in the crop-growing territory, and that on the first day of July the demands for this amount were met in the denominations asked for by the cashier's checks drawn to bearer or credit bank notes. What would be the result?
>
> All the country banks would be paid off in full, but the city banks would have a corresponding liability to meet in the form of cashier's checks or credit bank notes, for the two are identical. What has actually taken place? Bank-book credits have been converted into bank-note credits to the extent of $200,000,000.
>
> The bank credits of the country have not been increased by a single dollar. The reserves have not been disturbed to the extent of a single cent. There has been neither expansion nor contraction. It has been a simple transaction in bookkeeping; and yet the entire crop-raising and stock-producing regions have been served precisely as they would have been or are being served to-day by the withdrawal and transmission of $200,000,000 of reserve money, gold certificates, silver certificates, and United States notes, requiring a contraction of credit approximately one thousand million dollars, nothing less than a commercial tragedy. I challenge any man in this audience to deny these statements and controvert these conclusions.
>
> But will it be suggested that this is a large conversion of book credits into note credits at one time? Let us see. The deposits or book credits of the national banks alone are now nearly $6,000,000,000. Therefore the conversion of $200,000,000 of deposits or book credits into note credits is only a little over 3 per cent of the total.
>
> Again, since the aggregate of all bank deposits in corporate and private institutions is now about $15,000,000,000, it would be a conversion of only 1⅓ per cent of the total deposits or book credits into note credits.
>
> But the fact is that, whether large or small relatively, it is wholly immaterial, for the transaction does not change the total bank credits to the extent of a single cent.

Ricardo says:

> The issuers of paper money should regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great or too little, while it preserves the same value as the standard.

Diagram exhibiting fluctuatio[n] [...]nks of the Dominion of Canada, also [...]eriod.



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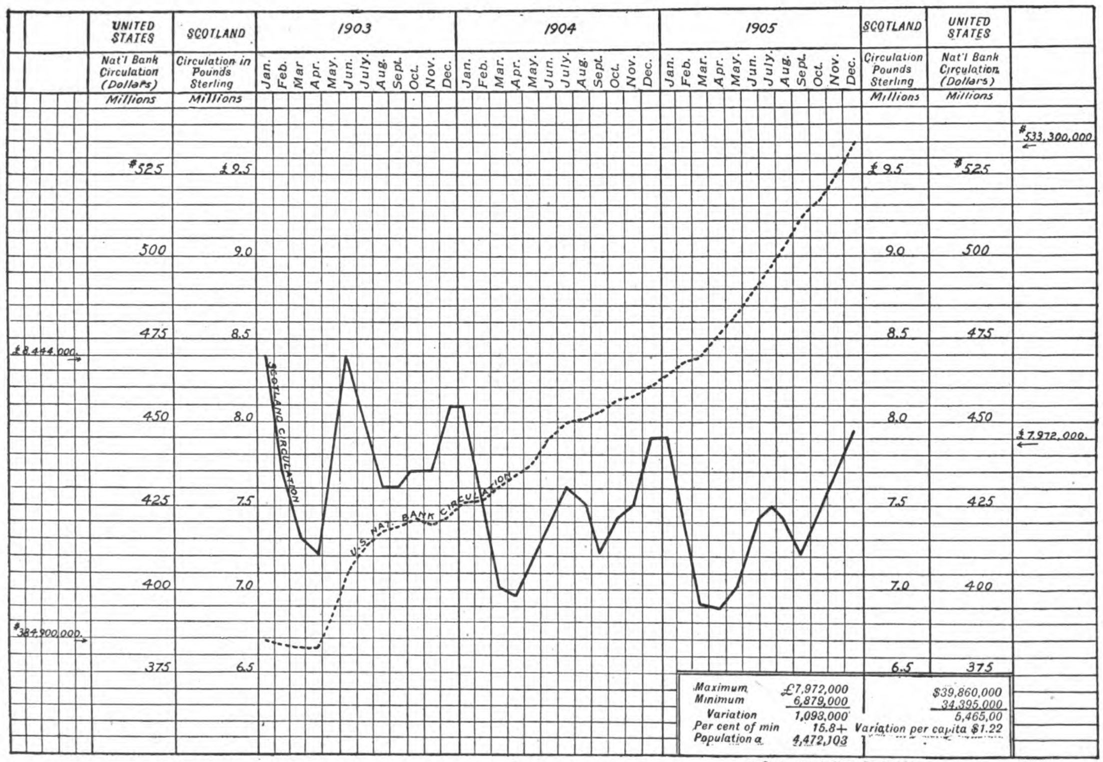
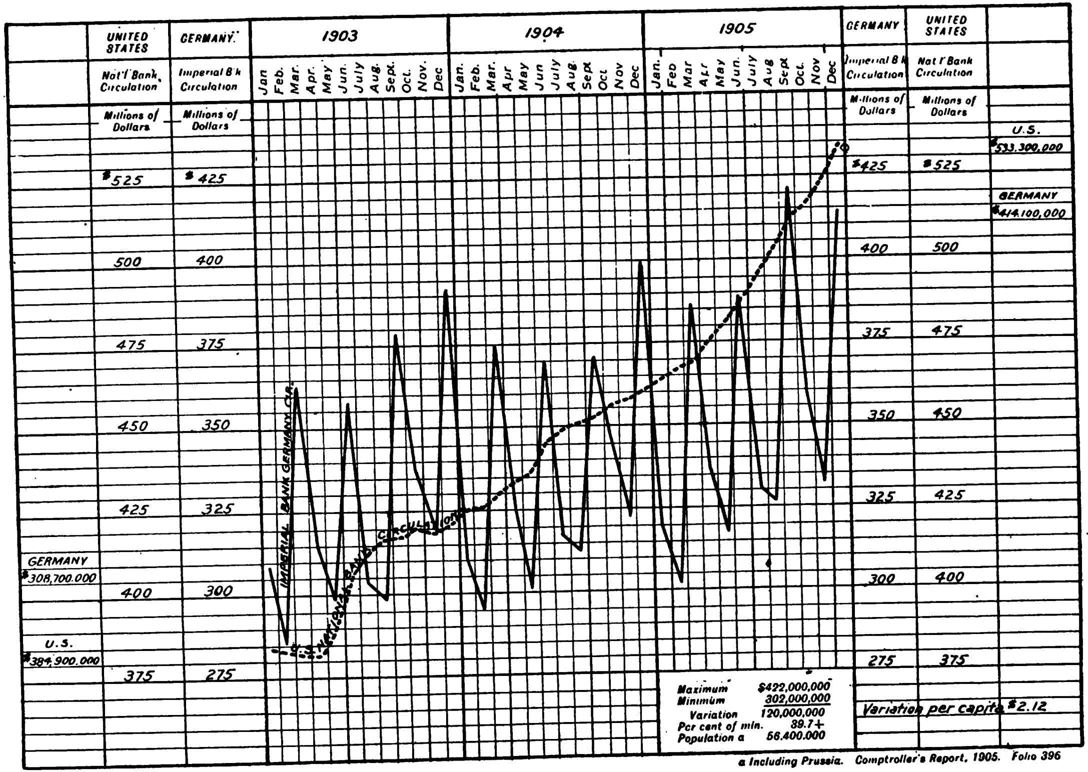


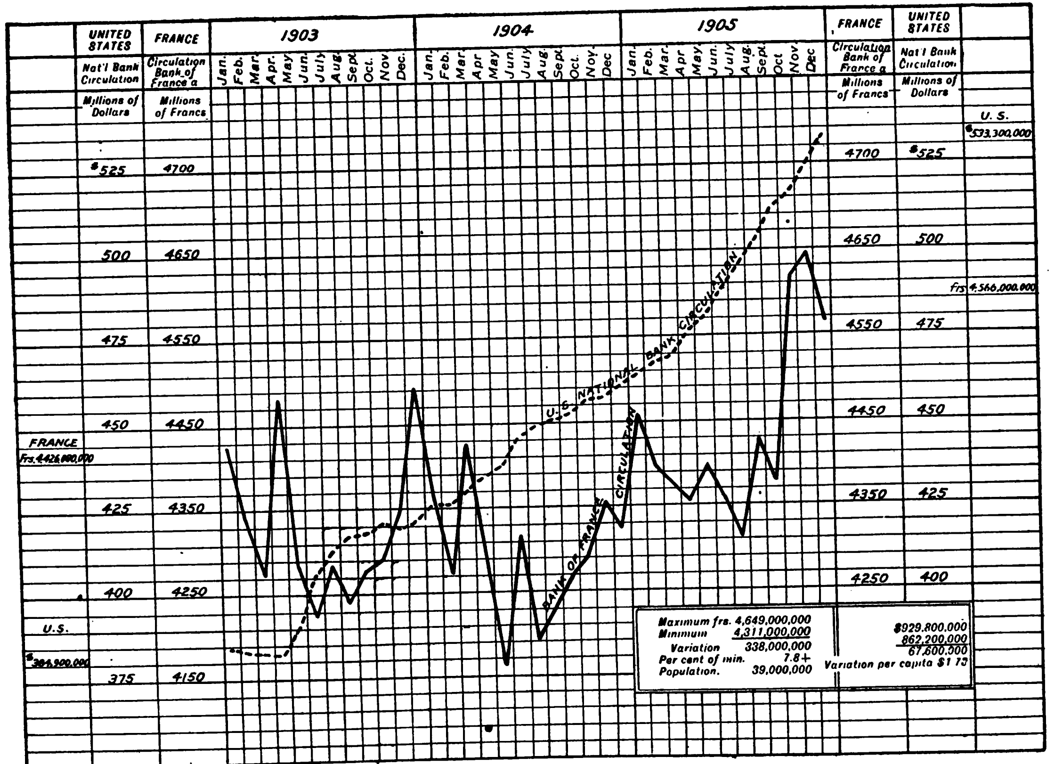
a Statesman's Year Book. 1906.

GERMANY.



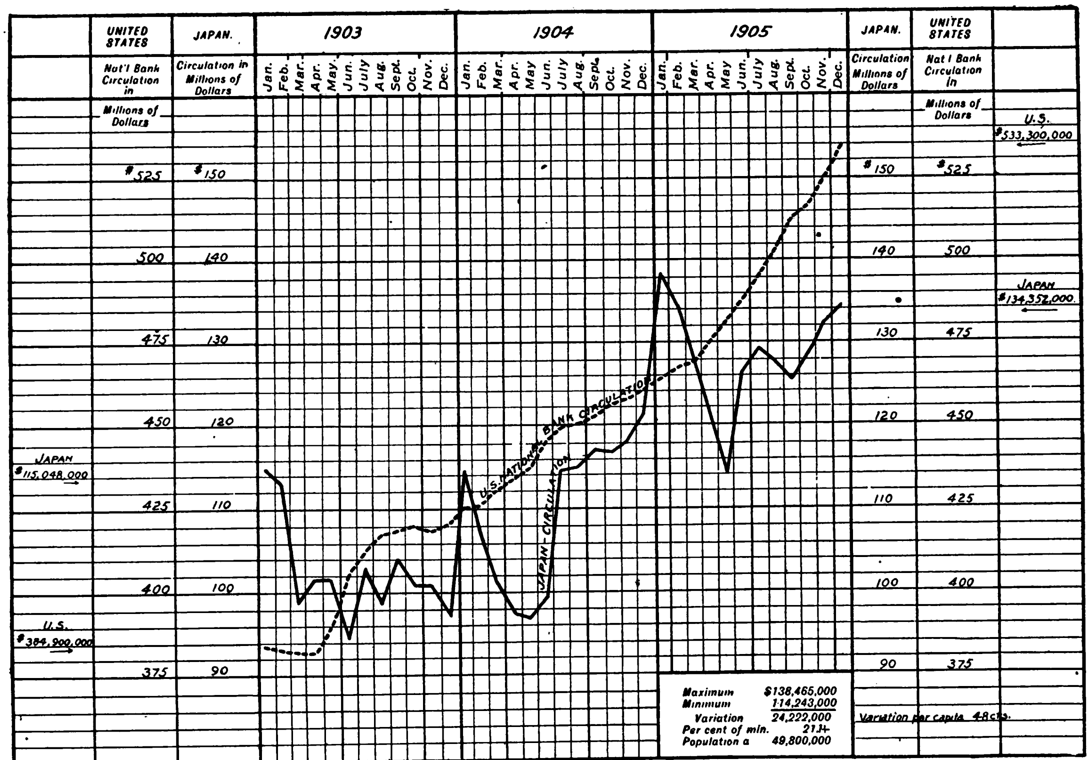
a Including Prussia. Comptroller's Report, 1905. Folio 396

FRANCE.



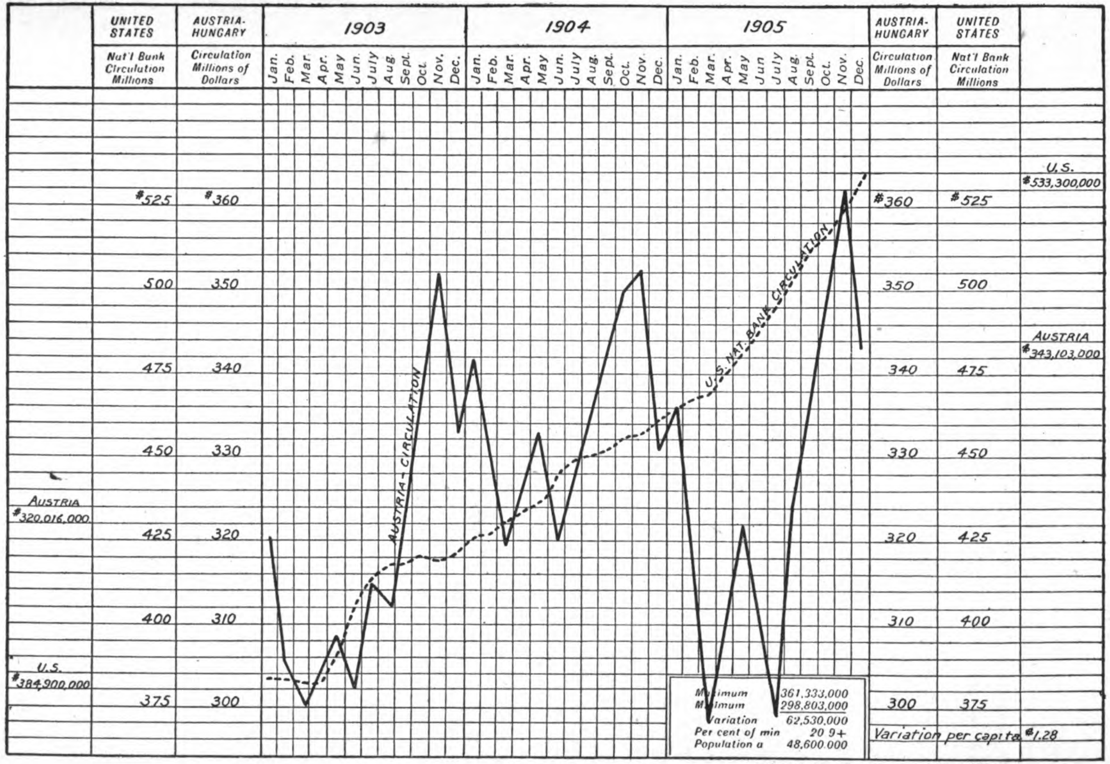
a From L'Economiste Européen.

JAPAN.



a Comptroller's Report, 1905. Folio 390.

AUSTRIA-HUNGARY.



a Comptroller's Report. Folio 396. (1905.)

CREDIT NOTES AND DEPOSITS.

Your committee asserts that it is immaterial whether the obligations of a bank are in the form of deposits subject to check or of credit bank notes, providing that the reserves are ample and the same amount is required for the protection of each. With the same freedom on the part of the bank to issue its credit notes that it has to accept deposits subject to check the habits of a people will determine whether the deposits of a bank or its credit notes are the larger.

For one hundred and forty years there was no such thing in Scotland as a deposit subject to check. The banks simply exchanged their credit notes payable on demand for the time obligations of the people.

On December 31, 1905, the people of Scotland held the credit notes of the eleven banks of Scotland to the extent of $35,000,000; and there was on deposit in the same banks to the credit of the people, subject to check, $500,000,000, disclosing a complete change of habit in the use of credit.

On May 31, 1906, the people of France held the credit notes of the Bank of France to the extent of $954,000,000; and there was on deposit in the Bank of France to the credit of the people, subject to check, only one-eighth of this amount, or $124,000,000, showing that the people of France prefer and use current credit instead of book credit subject to check.

On December 31, 1905, the people of Germany held the credit notes of the Imperial Bank of Germany to the extent of $419,000,000; and there was on deposit to the credit of the people, subject to check, only $159,000,000, which indicates that the German people prefer the current credits of the bank to book credits subject to check.

On June 30, 1906, the people of Canada held credit notes of the 34 banks of Canada to the extent of $69,000,000; but their deposits subject to check amounted to $598,000,000, or more than eight fold, proving that the habit of using checks largely prevails with them over note or current credits.

Here, then, are four countries where there is a perfect freedom of exchange between bank-book credits and bank-note credits, and where the relations between the two are constantly changing in perfect accord with the desire and convenience of the people.

Indeed, a true credit currency is the currency of the civilized world, with only an exception or two to accentuate the rule. To such exceptions your committee will presently allude.

ADVANTAGES OF A CREDIT CURRENCY.

The advantages of a credit currency are these:

First. It will lower and equalize the rates of interest throughout the United States.

Second. It will make the rates practically uniform throughout the year.

Third. It will give to the country districts as economical a form of credit as the cities enjoy where checks are chiefly used.

Fourth. It will give to the mass of the people, who use currency in their smaller purchases, as economical a form of credit as those enjoy who use checks in their larger transactions.

Fifth. It will make it possible for the banks generally to serve such of their customers as may want currency without disturbing their reserves to the great injury of other customers who have loans which must be paid before the currency can be advanced; for it is immaterial to a bank whether it owes a depositor or a note holder.

Sixth. It will almost invariably prevent any panic whatever, and will always avert a ruinous crisis.

Seventh. If at any time contraction of credits becomes necessary because too much of the commercial fund has been diverted and transformed into the investment fund, a credit currency will facilitate liquidation without that destruction of values incident to a fixed quantity of currency such as we now have.

For the edification of the House, your committee submits the following diagrams, which demonstrate that while there is no country in the world which needs a credit currency so much as ours, it is the only country in the world with a currency absolutely fixed, so far as adjusting itself to our varying needs in the slightest degree is concerned.

The conditions in Canada, all things considered, are more nearly like our own than those of any other country; for, once every year, there is a very great demand for currency. This demand the Canadian banks supply, each recurring season, with a facility that must challenge the attention of every thoughtful and fair-minded man.

For the years 1903, 1904, and 1905 it will be observed that the increase and decrease, or expansion and contraction, of the Canadian bank notes approximate on the average 30 per cent, while our bank circulation was during this whole time moving only in one direction. It rose as persistently from January to July, when it should have contracted, as it did from July to January, when the crops had to be moved. The diagram discloses with startling nicety how accurately every fall, in the month of October, the Canadian currency was at its maximum.

Your committee desires to impress upon your attention the fact that in May and November there are settlements in Scotland, and that these are perfectly reflected in the accompanying diagram. This again demonstrates the peculiar fitness of a credit currency to come and go as the business needs of any country require it.

Your committee calls the attention of the House to the German system, in which there are four regular periods when the currency goes out and returns. There are quarterly settlement days in Germany. On these days the notes of the Imperial Bank, with perfect regularity, go out and do the work they are sent to perform, accomplishing it precisely as checks do. Then they return to the bank to await the next summons from the demands of trade.

So your committee might take up each of the countries with whose currency movements our own are compared and point out the reasons for the variations indicated. The per capita range of expansion and contraction for the various countries is as follows: Canada, \$3.29; Germany, \$2.12; France, \$1.73; Austria-Hungary, \$1.28; Japan, \$0.48; England, \$0.47; Scotland, \$1.22.

If our variation per capita each year was as great as that of Canada, it would amount to \$276,360,000. If it was the average of all the above countries, it would be \$1.50 per capita, or a total of \$126,000,000.

England has been included in the list for comparison because, being the financial center, the commercial clearing house of the world, it has a constant movement of gold flowing in and out which gives her a degree of elasticity which would be impossible but for that fact, and therefore England occupies a unique position. Again, both Scotland and Ireland have perfect systems of credit currency to meet their varying needs.

NATIONAL BANK CURRENCY.

Your committee submits that every thoughtful man must inquire why there is not the slightest variation in the quantity of our currency, which can in any way be attributed to the changing conditions of our business. Especially is this fact accentuated when we know that if we had a true credit currency system, such as exists in Canada, our increase and decrease would approximate $250,000,000.

Why this absolute fixity of quantity under all the varying conditions of the seasons? The reasons are these:

First. Our national-bank currency represents actual capital; every $100,000 of it representing $104,000 of cash paid out, the loanable fund of the country being actually reduced because of this system by more than $20,000,000 in these premiums, and when compared with a true credit currency there is a sacrifice of more than $400,000,000 of capital.

Second. Our national-bank currency represents an investment in United States bonds, and is related only to the bonds as a speculation and in no way to the needs of business. Bonds, not business, brought it into being.

Third. The law prohibits the retirement of more than $3,000,000 of national-bank notes in any one month. It would take, therefore, fourteen years to retire the present outstanding circulation.

Fourth. There are no adequate facilities for the current redemption of our national-bank currency; hence, broadly speaking, it is redeemed only when the paper is worn out.

No other country now has or ever had such a currency except Japan, where our system was imitated, but almost immediately repudiated, and a credit currency adopted in its stead.

NATIONAL BANK-NOTE CIRCULATION, 1890–1906.

Total national-bank notes outstanding at the end of August and December in the years named and at the end of the following April.

Year.	August.	December.	April.
1890	$184,391,633	$178,568,376	$171,805,064
1891	168,543,059	172,993,607	172,529,451
1892	172,527,713	173,614,871	176,094,544
1893	183,755,148	208,948,105	207,875,695
1894	207,539,066	206,686,337	207,541,211
1895	211,372,045	213,960,598	221,316,027
1896	226,030,042	235,398,890	233,795,141
1897	230,844,256	229,634,216	224,481,878
1898	226,780,064	242,784,803	243,134,892
1899	241,623,553	243,842,067	271,034,337
1900	320,095,890	332,292,300	350,101,405
1901	356,152,903	359,720,711	357,476,407
1902	358,984,183	384,854,514	382,519,258
1903	417,346,487	421,106,979	434,909,942
1904	450,206,888	460,679,075	475,948,944
1905	503,971,395	540,914,347	556,646,282
1906	569,852,303	....	....

The foregoing diagrams, as well as the above-tabulated statement, confirm these conclusions, for, by examination, the House will find there were several falls when our currency ought to have increased, but was actually reduced, and several springs when it ought to have diminished, but was actually increased, proving that bond speculation and not business requirements controls the quantity of our currency.

Your committee further submit the following review and survey of the subject for the information of the House:

TRANSACTIONS IN CREDIT.

Alexander Hamilton, with the unerring instinct of a financial genius, stated the underlying principle clearly and well when he said:

> Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold or silver, at his option. But in a large number of cases no actual payment is made in either. The borrower, frequently by a check or order, transfers his credit to some other person to whom he has a payment to make, who, in his turn, is as often content with a similar credit, because he is satisfied that he can whenever he pleases either convert it into cash or pass it to some other hand as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some other person who has a payment to make to the bank to an equal or greater amount. Thus large sums are lent and paid, frequently through a variety of hands, without the intervention of a single piece of coin.

Though these words were uttered more than a hundred years ago, with what prophetic vision did Hamilton anticipate the practice of our own time, more than 90 per cent of our vast transactions being in some form of credit and less than 4 per cent in actual coin.

If the convenience of the people in any locality or line of business, such as that of the farmer or the manufacturer, prefers the bank note to the deposit and check, the bank note ought to be provided for all those whose credit entitles them to the favor of the bank.

The true bank note is not real money any more than a check is real money. Each should entitle the holder to the amount it calls for in in gold coin.

THE SCOTCH SYSTEM OF CREDIT NOTES.

The great achievements of the Scotch system of credit notes is exceedingly well stated by Mr. Charles A. Conant in these words:

> 1. It has provided Scotland with an elastic currency adapted to the condition of her industries and adequate in volume to their changing needs.
>
> 2. It has enabled the people to carry on numerous commercial and agricultural transactions for which they could not have found the necessary quantity of coin and has economized the locking up of capital in the precious metals.
>
> 3. It has made the use of notes of small denominations familiar and popular, and has taught the people the distinction between bank notes as the representatives of credit and the precious metals as the measures of value.
>
> 4. It has brought into active use the available savings and capital of the country.
>
> 5. It has afforded an opportunity for entering upon business to thousands of poor but honest men and enabled them to lay the foundation of a comfortable home and in many cases of a fortune.
>
> 6. It has convinced the people so conclusively of the value and safety of the banking currency system that no serious panic has ever lasted beyond a few days or has ever affected any of the banks except those which were justly the subject of distrust. (Conant's History of Modern Banks of Issue, p. 155.)

FRENCH BANK NOTES.

Standing out even more conspicuously as a representative of a pure credit system, the Bank of France surpasses in some respects even the Scotch banks, since certain trammels have been thrown around the latter in the name of safeguards, because, forsooth, the English banks had disastrous experiences due to unwise laws.

In 1803, when the charter of the Bank of France was under consideration for renewal, Napoleon, with his own hand, inserted in the draft of the bill these prerequisites for note issues:

"The notes shall be covered either by coin held by the bank or by notes secured by collateral or by notes signed by three responsible persons."

That is the law to-day with regard to its note issues. Nothing could be in more perfect consonance with sound banking. Nothing could be a truer and safer basis for a credit currency or for a credit at a bank against which to draw checks.

There is nothing in the law of France requiring the banks to carry any particular reserve, but experience has taught the managers of the Bank of France that a certain reserve is essential to insure confidence and protect the credit of the institution.

But the vast reserve of gold carried by the Bank of France is not a reserve to protect the notes as distinguished from the other liabilities of the bank, but to protect them in common with all the other obligations.

If anyone supposes that the Bank of France carries $588,000,000, or more than 50 per cent of its notes, to protect its notes alone, he is laboring under a profound delusion, and his dream is rendered ridiculous when he is reminded of the fact that if the bank holds all this sum as a note reserve it has made no provision whatever for the protection of its other demand obligations, amounting to more than $200,000,000.

As well might we say that the banks of Scotland are carrying $135,000,000 of gold coin to protect their $40,000,000 of notes and not to protect their other demand obligations, amounting to more than $600,000,000.

Let it be distinctly understood, once for all, that it requires just the same reserve to protect $100,000 of deposits, subject to check, as it does to protect $100,000 of credit notes, and that there is not the slightest difference between them as liabilities, both being current accounts and payable upon demand *in legal tender* should the creditor so require.

In France both the note holder and the depositor stand upon identically the same footing, neither being protected more than the other by a guaranty fund or a prior lien. Although the notes of the Bank of France amount to $929,000,000, or more than five times the deposits, which amount to only $200,000,000, the Frenchman has as much confidence in his note as any American has in our bank note or any Englishman in a Bank of England note.

The note of the Bank of France, however, is the purest kind of a credit note. It rests entirely upon the credit of the Bank of France and is protected only by its general assets. It has always been a practically unlimited issue, because the limit has always been far

above the requirements of trade, being to-day fixed by law at $1,450,000,000, while the actual issue is only $1,193,000,000.

In 1903 one hundred years had expired since Napoleon prescribed the basis of this ideal credit note which has done so much to give France the lowest interest rate in the world, thus proving that while she has had the cheapest tool with which to do her commercial work that tool has been as good as the best in the world.

The Bank of France has a capital of $35,000,000 and carries a reserve of $588,000,000.

This capital and gold reserve are, first, to protect all the liabilities of the bank—the current accounts, deposits, and notes; second, to guarantee the parity of gold and silver and in that way the stability of the monetary system of France, and, third, to establish a commercial reserve for the protection of all French credits.

GERMAN BANK NOTES.

The Reichsbank, or Imperial Bank of Germany, was created in 1875 out of the Bank of Prussia, which had existed since 1765.

This bank is obliged to hold in its vaults, as security for the amount of its bank notes in actual circulation at any time, one-third in current German gold, Government certificates, or in bullion or foreign coin (the pound fine being reckoned at $348), and the balance in discounted notes which bear a maturity of three months at the longest, and on which the names of three or at least two persons known to be responsible stand as indorsers. When the circulation exceeds the metallic reserve by the arbitrary amount of $112,500,000, upon which there is no tax, a tax of 5 per cent is imposed.

No bond or guaranty fund stands between the note holder and possible loss. In case of the liquidation of the bank the note holder and the depositor stand on the same footing.

Here is a true credit currency, with a basis and a relation to the deposit identical with that of the Bank of France to all intents and purposes, the only essential difference being in the nominal limit upon notes of the Bank of France and the 5 per cent tax imposed, under certain conditions, upon notes of the Imperial Bank of Germany.

The entire capital of $37,500,000, with a surplus of $10,125,000 and a metallic reserve of $200,000,000, not only serves the purpose of protecting the bank's own liabilities, but is considered as the commercial reserve of German credits. Therefore he who assumes that the entire metallic reserve is intended to protect the notes of the bank utterly misapprehends its purpose; for if the law made no requirement whatever the reserve would not be a single mark less. Laws more powerful than written statutes control the motives and policies of the managers.

While neither bonds nor gold coin are set apart to protect specially the bank notes, does any American suppose that the German people hesitate to take them or do not accept them with all the assurance he may possess when boasting of the American bank note?

ENGLAND HAS RECOURSE TO A CREDIT CURRENCY.

The Bank of England, too, issues a credit currency whenever the emergency arises. Since the passage of the bank act of 1844, which was supposed to plant the currency of Great Britain upon coin or

bullion alone, in every case where a crisis has arisen or has been threateningly impending the bank act has been suspended. It was suspended three years later, in 1847. It was suspended ten years later, in 1857, and nine years later, in 1866, and bank notes issued without reference to a deposit of gold coin or bullion; while preparations for its suspension have been frequently made since, with the uniform result of breaking the force of the panic and ending the crisis. The "currency principle," or a currency based on coin alone, proved a failure in both Amsterdam and Hamburg in 1764, and again in Hamburg in 1857.

AMERICAN PRECEDENTS.

Crossing the Atlantic, let us review the history of credit notes in our own country, and we shall find that during a period of seventy years, wherever tried, credit notes proved themselves the only perfect instrument of modern trade, whose corner stone is credit.

CLEARING-HOUSE CERTIFICATES.

What is a clearing-house certificate? It is a bank note issued by the clearing house and based upon the assets of the banks deposited with the clearing house, and therefore a credit note in identically the sense in which this bill recommends a credit currency. In 1884 the New York banks issued $24,915,000 credit notes or clearing-house certificates, and in 1890 they issued $15,205,000 of them. In 1893 the New York banks issued $38,280,000 of these credit notes, and Boston, Baltimore, Philadelphia, and Pittsburg $25,000,000 of them. Therefore we assert that at no time whenever a great crisis has arisen has England or the United States or any other country found relief except in the expansive principle of issuing notes based upon credit or the goods in the country and not upon coin.

J. Laurence Laughlin, in support of this proposition, used this language:

> It is in such circumstances as these, we shall find, that means of payment are created, based again on goods such as clearing-house certificates; or, as in England, by obtaining new reserves of notes based on consols by a suspension of the bank act. In short, a panic demonstrates that credit transactions are really based on goods; that liquidation never can be forced in money; and that the invariable remedy is some method of tiding over the emergency by creating means of payment based on goods (not specie) which will be acceptable by lenders from borrowers (e. g., clearing-house certificates).

THE FIRST UNITED STATES BANK.

In the very morning of our national life our experience began with a true credit currency issued under the charter of the first United States bank, granted February 25, 1791. The act was drawn by Alexander Hamilton and signed by George Washington.

This bank could "establish offices wherever they shall think fit in the United States for the purpose of discount and deposit only;" and the act further provided that "the total amount of the debt which the said corporation shall at any time owe, whether by bond, bill, or note, or other contract, shall not exceed the sum of $10,000,000" (which was the amount of its capital) "over and above the moneys then actually deposited in the bank for safe-keeping."

The right of note issue, then, by the terms of the act was measured by the capital; and yet in 1811 the balance sheet showed only $5,037,125 of notes out, although the bank had the right to issue $10,000,000.

First bank of United States—statement of condition, January, 1811.

RESOURCES.

Loans and discounts	$14, 578, 294
United States 6 per cent stock	2, 750, 000
Other United States indebtedness	57, 046
Due from other banks	894, 145
Real estate	500, 653
Notes of other banks on hand	393, 341
Specie	5, 009, 567
Total	24, 183, 046

LIABILITIES.

Capital stock	$10, 000, 000
Undivided surplus	509, 678
Circulating notes outstanding	5, 037, 125
Individual deposits	5, 900, 423
United States deposits	1, 929, 999
Due to other banks	634, 348
Unpaid drafts outstanding	171, 473
Total	24, 183, 046

At the end of twenty years there were only eight branches, located at New Orleans, Savannah, Washington, Charleston, Norfolk, Baltimore, New York, and Boston, together with the home office at Philadelphia, although they could "establish offices wherever they shall think best."

The curse of unreasoning partisanship was abroad in the land then as now, and a renewal of the charter was defeated in the House by a single vote, the motion to postpone indefinitely being carried by 65 to 64. The vote in the Senate was a tie, and the question was decided by George Clinton, Vice-President, voting against it.

Every note of the bank had been equal to coin in all parts of the United States, and when it was liquidated the shareholders received $434 per share, or a premium of $34, the par being $400.

THE SECOND UNITED STATES BANK.

In his message of December 5, 1815, James Madison urged a Second United States Bank as the proper instrumentality by which we should again resume specie payments, and immediately his Secretary of the Treasury, Mr. Dallas, submitted a detailed plan.

The Second United States Bank, with a capital of $35,000,000, was chartered by act of April 10, 1816, which contained these words:

> The total amount of debts which the corporation shall at any time owe, whether by bond, bill or note, or other contract, over and above the debt or debts due for money deposited in the bank, shall not exceed the sum of $35,000,000.

Thus it will be seen that the issue of notes was limited to the amount of the capital, and by the act they were redeemable in coin. The directors were authorized to establish branches.

When the partisan rage of Jackson over the Portsmouth branch appointment had obscured every public consideration, the work of destruction began, which resulted in tearing down an institution of great usefulness and setting back the evolution of a sound system of banking and currency for nearly a century.

For evade it as we may to-day the time will come when the underlying principles of that institution will be incorporated into the laws of the land, and every bank will be compelled to redeem its obligations in gold coin. Then the banks will take their place among the financial institutions of the world, and their notes will once more be accepted throughout all the civilized parts of the earth.

In 1829 Jackson assumed the duties of the Presidential office. James Parton, his eulogistic biographer, in speaking of the United States Bank at this time, says:

> Its capital was thirty-five millions. The public money deposited in its vaults averaged six or seven millions; its private deposits six millions more; its circulation twelve millions; its discounts more than forty millions a year; its annual profits more than three millions. There were 25 branches in the cities and towns of the Union. * * * In every county of the Union, in every nation on the globe were stockholders of the United States Bank. One-fifth of its stock was owned by foreigners, one-fourth of its stock was owned by women, orphans, and the trustees of charity funds, so high, so unquestioned was its credit. Its bank notes were as good as gold in every part of the country. From Maine to Georgia, from Georgia to Astoria, a man could travel and pass these notes at every point without discount. Nay, in Sweden, Paris, Rome, Cairo, Calcutta, St. Petersburg, the notes of the Bank of the United States were worth a fraction more or less than their value at home, according to the current rate of exchange. They could usually be sold at a premium at the remotest commercial centers. It was not uncommon for the stock of the bank to be sold at a premium of 40 per cent. The directors of the bank were 25 in number, of whom 5 were appointed by the President. The bank and its branches received and disbursed the entire revenues of the nation.

Principal items of resources and liabilities of the Bank of the United States from 1817 to 1840.

RESOURCES.

Year.	Loans and discounts.	Stocks.	Real estate.	Banking houses.
1817	$3,485,195	$4,829,234	....	....
1818	41,181,750	9,475,932	....	$175,201
1819	35,786,263	7,391,823	....	433,808
1820	31,401,158	7,192,980	....	1,296,626
1821	30,905,199	9,155,855	....	1,886,724
1822	28,061,169	13,318,951	$563,480	1,855,946
1823	30,736,432	11,018,552	626,674	1,956,764
1824	33,432,084	10,874,014	1,302,551	1,871,635
1825	31,812,617	18,422,027	1,495,150	1,852,935
1826	33,424,621	18,303,501	1,848,354	1,792,870
1827	30,937,866	17,764,359	2,039,226	1,678,192
1828	33,682,905	17,624,859	2,295,401	1,634,260
1829	39,219,602	16,099,099	2,345,539	1,557,356
1830	40,663,805	11,610,290	2,886,397	1,444,801
1831	44,032,057	8,674,681	2,629,125	1,344,761
1832	66,293,707	2,200	2,136,525	1,159,637
1833	61,695,913	....	1,855,169	1,181,071
1834	54,911,461	....	1,741,407	1,189,125
1835	51,808,739	....	1,760,632	1,218,896
1836	59,232,445	....	1,486,561	967,404
1837	57,393,709	....	816,855	420,244
1838	45,256,571	14,862,108	1,061,663	443,109
1839	41,618,637	17,957,497	1,054,523	424,382
1840	36,839,593	16,316,419	1,228,630	610,504

***Principal items of resources and liabilities of the Bank of the United States from 1817 to 1840*—Continued.**

RESOURCES—Continued.

Year.	Due by European bankers.	Due from State banks.	Notes of State banks.	Specie.
1817	....	$8,848,315	$587,201	$1,724,109
1818	$1,033,682	1,203,894	1,837,254	2,515,949
1819	621,667	2,624,797	1,877,909	2,666,696
1820	261,548	2,727,080	1,443,166	3,392,755
1821	83,548	1,178,197	677,022	7,643,140
1822	1,107,637	1,717,723	917,629	4,761,299
1823	24,599	1,407,573	766,248	4,424,874
1824	1,434,020	1,287,808	705,173	5,813,694
1825	24.178	2,130.095	1,056,224	6,746,952
1826	421,524	747,375	1,114,831	3,960,158
1827	400,686	1,683,510	1,068,483	6,457,161
1828	356,740	....	1,447,386	6,170,045
1829	482,240	1,723,207	1,293,578	6,098,138
1830	1,530,553	1,139,458	1,465,047	7,608,076
1831	2,383,331	....	1,494,506	10,808,047
1832	91,668	3,944,849	2,171,676	7,038,023
1833	3,106,833	3,688,143	2,292,655	8,951,847
1834	1,801,669	3,058,870	1,982,640	10,039,237
1835	1,922,498	4,609,973	1,506,200	15,708,369
1836	73,171	4,088,005	1,736,491	8,417,988
1837	....	2,284,598	1,206,754	2,638,449
1838	....	3,657,261	866.597	3,770,842
1839	....	5,833,000	1,791,580	4,153,607
1840	....	7,469,422	1,383,686	1,469,674

LIABILITIES.

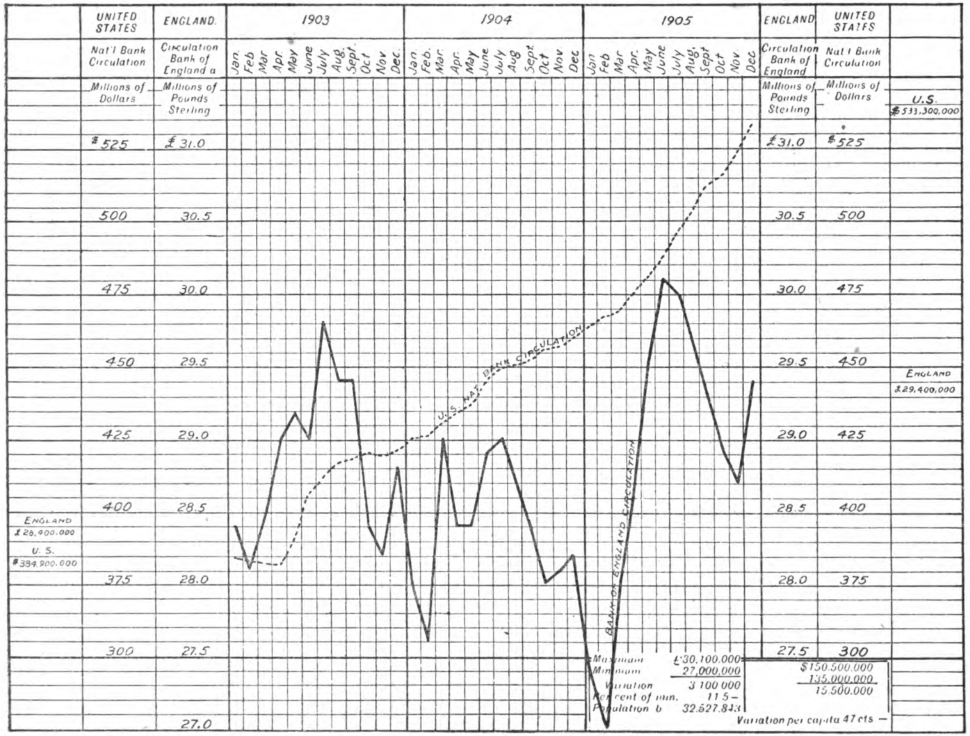
Year.	Circulation.	Deposits.	Due to State banks.	Due to bankers and others in Europe.	Other liabilities.	Capital.
1817	$1,911,200	$11,233,021	....	....	....	$35,000,000
1818	8,339,448	12,279,207	....	$1,357,778	....	35,000,000
1819	6,563,750	5,792,869	....	1,434,022	....	35,000,000
1820	3,589,481	6,568,794	....	2,053,650	....	35,000,000
1821	4,567,053	7,894,985	....	2,053,074	....	35,000,000
1822	5,578,782	8,075,152	....	2,040,000	....	35,000,000
1823	4,361,058	7,622,340	....	1,292,710	....	35,000,000
1824	4,647,077	13,701,936	....	1,020,000	....	35,000,000
1825	6,068,394	12,033,364	....	2,407,282	....	35,000,000
1826	9,474,987	11,214,640	....	251,494	....	35,000,000
1827	8,549,409	14,320,186	....	280,056	....	35,000,000
1828	9,855,677	14,497,330	$1,697,401	1,467,806	....	35,000,000
1829	11,901,656	17,061,918	....	1,447,748	....	35,000,000
1830	12,924,145	16,045,782	....	....	....	35,000,000
1831	16,251,267	17,297,041	734,900	....	....	35,000,000
1832	21,355,724	22,761,434	1,951,103	....	....	35,000,000
1833	17,518,217	20,347,749	2,091,891	....	....	35,000,000
1834	19,208,379	10,838,555	1,522,124	....	....	35,000,000
1835	17,339,797	11,756,905	3,119,172	....	....	35,000,000
1836	23,076,422	5,061,456	2,660,694	....	....	35,000,000
1837	11,447,968	2,332,409	2,284,598	6,926,364	....	35,000,000
1838	6,768,067	2,616,713	4,957,291	12,492,034	$7,987,434	35,000,000
1839	5,982,621	6,779,394	3,061,895	12,770,000	9,260,351	35,000,000
1840	6,695,861	3,338,521	4,155,366	4,971,619	8,119,468	35,000,000

The bank notes of this institution were pure credit notes, and yet were good for their face in gold not only at every point within our borders, but at every commercial center the whole world round. Can as much be said for the national-bank notes to-day?

VIRGINIA BANKS.

The Bank of Virginia was chartered January 13, 1804, with a capital of $1,500,000, the shares being apportioned as follows: Three thousand five hundred to Richmond, 3,000 to Norfolk, 2,250 to Petersburg,

ENGLAND.



b England and Wales   Statesman's Year Book, 1906

issue. And there it stands to-day, occupying the building it purchased from the United States Bank, a monument to the sound principles upon which it was founded.

It may be most fittingly observed before passing that when in May, 1837, the blighting wave of suspension swept from New York across the country these three banks of Kentucky held $1,900,000 in specie against $3,300,000 of notes in circulation—an object lesson for those who may possibly fear that banks can not obtain sufficient coin to-day to protect the notes they are permitted to issue.

NORTH CAROLINA BANKS.

In 1858–59 the general assembly of the State of North Carolina chartered "The Bank of North Carolina," with a capital of $2,500,000, the power to have branches, and the right to issue its notes in double the amount of its capital, but not to exceed three times the specie on hand.

Branches were established at Wilmington, Fayetteville, Tarboro, Windsor, Milton, Charlotte, and Morganton.

In November, 1859, the statement showed that the bank held $683,842 in gold and only $13,148 in silver, or a ratio of 52 to 1. On October 20, 1860, the circulation was $1,311,301 and the specie $490,714, or a little more than $3 in specie for every dollar in circulation.

In 1859 the Bank of Cape Fear held $481,550 in specie against $1,922,309 of circulation. The Bank of Wilmington held $66,462 in specie against $498,642 of circulation. The Bank of Fayetteville held $61,104 in specie against $233,375 of circulation.

What a splendid exhibition this array of figures furnishes of the right principles of banking. It is hoped that every banker in the United States and every layman who is compelled to borrow or is inclined to think about the subject of finance may read the charter and the by-laws of the Bank of North Carolina and fully understand the profound meaning of the above figures in the light of the times and circumstances.

NEW YORK BANKS.

The very year that Jackson made his violent attack upon the United States Bank the legislature of New York passed what is known as "the safety-fund act," which became a law April 2, 1829.

By that act the banks were required to pay into a safety fund, to be held by the comptroller and treasurer, a tax on the capital stock at the rate of one-half per cent per annum, until the amount paid in was equal to 3 per cent of the capital. They could issue notes to double the amount of their capital, while their loans could not exceed two and one-half times their capital.

From 1829 to 1841, notwithstanding the panic of 1837, no bank which had been organized under this law failed. The chancellor of the State, in construing the statute, unfortunately held that the safety fund, which was only intended by the author of the plan to protect the note holder, was applicable also to the other debts of the banks.

The commissioners, commenting upon the decision, said:

> This peculiar feature of the law does not seem to have been generally understood either by the public at large or even by those engaged in the business of banking,

and great doubt is entertained in regard either to its justice or its expediency. * * * The safety-fund act was primarily designed to secure bank-note holders and not depositors or other creditors.

The Hon. Millard Fillmore, comptroller in 1848, stated in his report of December 30:

It is therefore apparent that the safety fund would have provided an ample indemnity to the bill holder had it not been applied to the payment of other debts of the bank than those due for circulation.

But the notes issued under this safety-fund system of New York were of a purely credit character, and would have proved safe beyond any peradventure but for a misinterpretation or miscarriage of the law.[a]

INDIANA BANKS.

The black shadow cast upon the commerce of the country by the persistent attacks of President Jackson against the United States Bank projected itself over the Alleghenies and across the fertile plains of the Mississippi Valley, and not until 1834 did Indiana take the first intelligent step forward by incorporating "The State Bank of Indiana."

The Bank of Indiana, which became a model, was chartered with a capital of $1,600,000, and the State was divided into 10 districts, afterwards increased to 17, there being a branch of the bank in each.

Under its charter the bank could receive deposits, buy and sell gold, silver, bullion, and foreign coins, discount commercial paper, and issue bills payable to bearer—a true credit note. A forfeiture of 12½ per cent was imposed upon all notes not redeemed in coin.

State Bank of Indiana.

	1835.	1840.	1845.	1850.	1855.
RESOURCES.					
Loans and discounts	$1,434,790	$2,912,619	$1,830,181	$1,709,935	$1,024,648
Bills of exchange	376,175	704,628	1,197,435	2,414,951	3,654,132
Real estate, etc	19,510	204,805	348,169	364,233	177,825
Due from other banks	759,660	335,505	638,699	598,014	929,425
Notes of other banks	572,073	195,724	84,188	355,535	292,736
Other securities	....	1,092,963	663,133	224,842	238,203
Specie	797,811	1,022,963	1,079,368	1,197,880	1,223,199
LIABILITIES.					
Capital stock	1,199,778	2,690,000	2,878,894	2,082,950	2,150,107
Surplus	170,000	275,839	375,239	750,678	1,228,301
Public deposits	1,124,007	79,227	....	....	....
Individual deposits	379,543	309,248	359,265	556,432	599,177
Due other banks	23,415	154,423	45,656	112,175	120,666
Circulation	1,534,020	2,835,902	3,667,495	3,548,267	3,397,251

[a] The system did not meet with the success that the principle would seem to warrant, and this was chiefly due to the attempt to make all the debts of the insolvent banks chargeable to it. The heaviest failures took place before the change was made in the law by which the circulating notes alone were redeemed from the safety fund. The history of the fund from 1829 to 1866, a period of nearly forty years, indicates that if from the first the contributions of the incorporated banks had been applied to redeeming the notes of the insolvent institutions they would have been ample for the purpose, and would have made the circulation of the safety-fund banks more secure than that of the banks under the free-banking system. (Knox's History of Banking, p. 412.)

The institution was hardly under way when the panic of 1837 broke upon the country. The New York banks suspending compelled the Indiana bank to follow in order that it could protect itself. John Jay Knox says:

> No bank in the country stood higher than did the State Bank of Indiana during the panic. In all the Western and Southern States its notes commanded a premium and in the East were taken at a small discount. * * * Its loans were made in small amounts and scattered all over the entire State, thus affording the greatest possible measure of relief.

Great as was the success of this splendid institution, the Jacksonian Democrats, coming into power, at once began an assault upon it precisely as their leader had laid the ax to the roots of the United States Bank.

The Indiana Democrats failed to destroy the Bank of Indiana, but succeeded in passing a general banking law permitting banks to be established upon filing with the auditor of the State the bonds or other evidences of debt of the Federal Government or of any of the States as security for the notes to be issued.

The State of Indiana itself went into the business of issuing notes, and even plank-road companies issued them. The Indiana State notes could be had for 60 cents on the dollar, and were called "red dog." The plank-road notes and others of similar value were called "blue pup."

The Bank of the State of Indiana, organized in 1855 with 20 branches to take the place of the Indiana State Bank, maintained the same high standard as its predecessor, going through the panic of 1857 without suspension, although every private bank in the State, except two at Indianapolis and one at Fort Wayne, went down.

Bank of the State of Indiana.

	1858.	1859.	1860.	1862.	1864.[a]
RESOURCES.					
Loans and exchange	$5,154,548	$6,213,659	$7,790,315	$3,857,428	$4,118,658
Real estate, etc	257,035	316,930	263,949	241,210	169,315
Due from other banks	982,731	716,631	1,152,119	1,342,104	763,209
Other securities	....	....	....	407,218	930,839
Bills of other banks[b]	338,189	264,964	217,429	1,233,122	1,258,501
Specie	1,685,894	1,411,500	1,917,368	3,472,369	1,417,957
LIABILITIES.					
Capital stock	2,486,259	2,988,431	3,323,850	3,354,200	2,775,000
Surplus	348,382	553,259	738,905	1,005,852	1,345,663
Due other banks	146,750	81,663	45,991	260,000	91,241
Deposits	986,468	834,188	1,186,870	2,033,795	2,755,688
Circulation	4,502,348	4,303,286	5,753,610	4,975,332	1,501,865

[a] Before the reports of 1864 were made most of the branches had been converted into national banks, and others were preparing for the conversion. All but three became national banks.
[b] Includes United States notes.

THE STATE BANK OF OHIO.

On February 24, 1845, the legislature of Ohio passed a bank act, under which the Ohio State Bank was organized with the right to establish branches and to issue notes. Each branch was required to deposit 10 per cent of the amount of its circulation to create a safety

fund to redeem the notes of any branch that might fail. In 1846 there were 17 branches; in 1848, 25 branches; in 1849, 38 branches, and in 1850, 39 branches.

The note issues were of a purely credit character and were proportioned to the capital as follows: For the first $100,000 of capital there might be $200,000 of notes; for the second $100,000 of capital, $150,000 of notes; for the third $100,000 of capital, $125,000 of notes; for the fourth $100,000 of capital, $100,000 of notes, and for each additional $100,000 of capital, $75,000 of notes.

The evident purpose of the act was to give the people a uniform and sound currency, and the plan succeeded admirably. "The State Bank of Ohio was regarded as one of the soundest in the country."[a]

The essence of the act was in the requirement that the notes issued by the respective branches should be redeemed in gold or silver coin, the lawful currency of the United States, and in the insurance given of this result by a reserve equal to 30 per cent, of which at least one-half should be gold or silver and the balance equivalent to gold or silver coin.

THE BANK OF THE STATE OF MISSOURI.

In the fatal 1837 the Bank of the State of Missouri was established, with five branches, located at Lexington, Fayette, Palmyra, Cape Girardeau, and Springfield, and with authority to issue its credit notes without limit if it maintained a coin reserve of 33⅓ per cent. Its capital was $3,450,000, one-half of which was owned by the State,

This was the only bank in the South or West that did not even temporarily suspend specie payments. Its credit notes were always and constantly redeemed on demand in specie. Indeed, so good were these credit notes that they were preferred to specie in New Mexico, Utah, and on the Pacific coast; and a gang of counterfeiters, taking advantage of their high standing, struck off imitations of them in large quantities.

And yet the issues of the bank never equaled the maximum limit of three times the coin held, the amount in circulation in 1856 being only $2,200,000, while the coin in the vaults was $1,140,000, although it was the only incorporated bank at that time doing a regular banking business in the State.

LOUISIANA BANKS.

In 1842 the State of Louisiana passed a bank act, which, though erring in one or two particulars, was nevertheless almost ideal, and under it "the State, in 1860, stood fourth in banking capital and held more specie than any other State except one."[a]

No limit was placed upon the amount of credit notes the banks could issue, and no security was specially pledged for their redemption. The virtue and real substance of the act was in requiring a coin reserve of 33⅓ per cent of all liabilities, deposits as well as notes, and confining the loans outside of capital to paper running for ninety days or less.

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[a] Horace White.

Not a single bank organized under this law suspended specie payment during the panic of 1857, and all were conforming to the requirements of redemption when General Butler marched down the streets of New Orleans.

THE STATE BANK OF IOWA.

Iowa, in the morning of her statehood, was opposed to banking as a business, her first constitution providing "that the general assembly shall provide for the organization of all other corporations except with banking privileges, the creation of which is prohibited."

The constitution also provided that "The general assembly shall prohibit by law any person or persons, association, company, or corporation from exercising the privilege of banking or creating paper to circulate as money," the penalty for each offense being one year in the county jail and a fine.

But during the intervening years down to 1857, when the new constitution was framed, Iowa had suffered so severely from *the bond-secured circulation* of Illinois in particular, known as "wild-cat," "red-dog," and "yellow-dog" money, that provision was incorporated permitting the legislature to create corporations with banking powers, subject, however, to a vote of the electors, and also to establish a State bank with branches, founded on actual specie basis.

It was provided that the branches should be mutually responsible for each other's notes; that the stockholders should be liable for an additional amount equal to their stock; that the bank could issue pure credit notes for double the amount of the paid-up capital; that in case of insolvency the bill holder should have a prior lien over other creditors, and that specie redemption must be maintained.

To secure this solvency beyond peradventure each branch was required to deposit with the State bank either coin, United States stocks, or interest-bearing State stocks at their market value in New York, but in no case above par. This deposit was equal to 12½ per cent of the note issue and was known as "the safety fund" to redeem the notes of the branches in case any of them failed to do so. In addition each branch must have on hand an amount of coin equal to 25 per cent of its notes outstanding and deposits held.

Here are all the prerequisites of a well-nigh perfect banking system; and the result proved the soundness of the plan.

"The notes were so good," an Iowa member of this House remarked the other day, "that they would not stay at home."

When the national banking system was established in 1865 and the 10 per cent tax on circulation was imposed the life was choked out of one of the most perfect banking systems that had ever existed; and every note of the $1,439,764 outstanding on January 2, 1865, was redeemed without the loss of a single cent to the holders.

State Bank of Iowa, statement January 2, 1865.

ASSETS.

Location of branches.	Safety funds.	Specie.	Notes of other banks.	Due from other banks.	Loans and discounts.	United States and State bonds.	Other items.
Burlington	$35,500	$77,526	$243,654	$139,525	$470,432	$19,100	$3,454
Council Bluffs	68,000	6,333	25,520	64,148	59,664	1,824	11,192
Davenport	25,000	3,284	217,401	58,147	166,490	54,600	11,376
Des Moines	19,500	36,731	66,646	4,735	173,894	10,000	1,986
Dubuque	36,305	71,806	102,817	84,345	427,826	115,956	20,408
Fort Madison	19,000	16,674	38,433	7,577	60,272	3,588	20,021
Iowa City	13,000	8,775	112,415	37,153	128,823	27,881	2,818
Keokuk	20,000	38,288	71,835	41,353	169,090	40,278	2,871
Lyons City	12,500	33,678	47,487	68,223	86,037	8,200	5,227
Maquoketa	7,700	15,543	46,747	27,200	30,603	1,687	4,221
McGregor	7,000	4,934	8,007	....	58,981	1,050	84
Mount Pleasant	12,000	23,526	123,446	13,383	175,677	31,287	10,993
Muscatine	11,000	19,754	73,373	55,000	158,955	7,022	16,094
Oskaloosa	12,000	22,270	31,006	21,029	108,734	....	6,833
Washington	10,400	10,674	91,688	46,686	192,877	38,700	5,260
Total	308,905	389,802	1,300,481	668,511	2,468,362	361,182	122,844

LIABILITIES.

Location of branches.	Capital.	Circulation.	Due other banks.	Due to depositors.	Other items.	Total liabilities.
Burlington	$150,000	$266,940	$1,265	$552,177	$18,810	$989,193
Council Bluffs	50,000	97,904	113	57,135	31,530	236,683
Davenport	60,000	1,785	5,454	452,751	16,308	536,299
Des Moines	78,000	140,035	1,404	83,369	10,684	313,493
Dubuque	150,000	283,837	9,148	361,474	55,005	859,465
Fort Madison	77,000	68,886	187	19,493	....	165,566
Iowa City	70,000	32,276	479	214,772	13,348	330,875
Keokuk	80,000	132,477	1,233	156,232	13,773	383,717
Lyons City	50,000	86,586	1,501	111,758	11,509	261,355
Maquoketa	25,000	30,640	46	73,339	4,679	133,705
McGregor	50,000	19,484	296	4,009	6,268	80,058
Mount Pleasant	50,000	90,390	1,616	212,738	35,569	390,314
Muscatine	58,200	64,390	12,069	199,816	6,722	341,199
Oskaloosa	50,000	81,131	....	64,355	6,388	201,875
Washington	50,000	43,003	110	288,037	15,136	396,286
Total	1,048,200	1,439,764	34,929	2,351,462	245,735	5,620,091

THE SUFFOLK SYSTEM OF NEW ENGLAND.

During all this varied experience in the West and South there was a most conspicuous illustration of a true credit currency in process, demonstrating and proving every principle involved in adapting it to our 12,000 banks, State and national, should the former desire to come into the system. It was the Suffolk system of New England.

Here were six States, with laws varying in each, and portions of them far more remote from Boston, where the Suffolk Bank was located, than any part of the United States is from any other part to-day, so far as business relations and convenience are concerned.

There were no railroads, telegraph lines, or long-distance telephones. Indeed, almost every essential to anything like a sound system of banking, as observed from the standpoint of to-day, was wanting. There was no law requiring a uniform reserve. There was no law requiring coin redemption. There was no law requiring a bona fide capital. There was no check upon the amount of notes any bank might issue if dishonestly inclined.

There were, in 1848, 306 banks deriving their authority from the six States, and 159 of them did not possess an average capital of $100,000; nor was the average capital outside of Boston more than $160,000, and including that city it was not more than $206,000.

By 1860 there were 504 banks. There are only 515 national banks to-day in the same States. Can any fair-minded, impartial man deny that the conditions to-day are vastly in favor of better results? One law for all, a bona fide capital, a required reserve, a system of redemption established by law, notes furnished by the Government, and a common national supervision all unite to compel the admission that any system that could prove its adequacy under such adverse conditions from 1840 to 1860 would certainly approximate perfection to-day.

Nowhere in the whole range of banking experience have so many things been demonstrated beyond cavil which the student of this subject wants to know.

To all intents and purposes the possible issues were without limit, the actual circulation in 1840 being only 23 per cent of that permitted, in 1850 only 40 per cent, and in 1860 only 36 per cent.

During every year from 1840 to 1860, except one, the note issues were greater (and usually nearly double) than the deposits, illustrating with what certainty such a system adapted itself to the ever-varying needs of the people who were fortunate enough to have it and how it invariably, with peculiar fitness, met the needs of the rural districts where currency and not checks was especially required.

The States of New Hampshire and Vermont had bank capital amounting to $8,150,000 in 1850 and notes outstanding amounting to $7,300,000, while Boston, with $32,700,000 of capital, had out only $7,500,000 of notes.

CONTEMPORARY COMMENTS OF OFFICIAL REPORTS ON THE SYSTEM.

The currency of this State is of the first order and can not be improved, being equal to gold and silver. This is strong language, we admit, yet perfectly true, for every bill holder can on demand convert his bills into coin. (Connecticut Bank Commissioners' Report, 1841.)

If there was no check upon circulation there might be some danger, but the frequent redemptions at the Suffolk Bank and the rapid communications between different parts of the country will prevent any greater circulation than the natural business wants of the country will sustain. * * * Indeed, this system of par redemption seems to be a most perfect regulator upon all the New England banks. It would seem somewhat surprising that something has not been adopted in other parts of the country that should produce the same beneficial results. (Connecticut Bank Commissioners' Report, 1848.)

We believe there is not a more sound and safe currency in existence than that furnished by the banks in this State. We know of no better system of banking than ours. (Connecticut Bank Commissioners' Report, 1849.)

The bills of any country bank, redeemed at par in any commercial city, will always be current throughout the extent of region whose business channels flow to that city. Hence, New England money is worth more in the cities of New York and Philadelphia than the bills of their own country banks. Vermont bills have uniformly borne a premium in the eastern cities without loss, while bills of their own States are at a heavy discount. (Vermont Bank Commission's Report, 1852.)

The "Suffolk system," though not recognized in our banking law, has proved to be the great safeguard to the public. Whatever objections may exist to this "system" in theory, its practical operation is to keep the circulation of our banks within the bounds of safety. No sound bank can have any well-founded reason for refusing to redeem its bills in Boston, and a bank that is not sound can not long do business under that system and ceases to be in good credit when it is "thrown out at the Suffolk." (Maine Commissioners' Report, December 31, 1857.)

It is by no means wonderful that a system which has stood the test of time and struck its roots so deep as to have become incorporated with and formed a part of our banking system should be abandoned with hesitation for one which is new and untried. (Maine Bank Commissioner's Report, 1865.)

The charters of the banks have been renewed. If the laws by which they are constituted the agents of the people to provide a currency, and by which their faithfulness in the discharge of such agency is secured, remain unchanged, there is every reason to believe that the currency of Massachusetts will be for the next twenty years what it has been for the twenty years past—as perfect as any in existence, as perfect as in the nature of things it can be. No reasonable man, no practical man, no man who is not bound hand and foot in the fetters of mere theory, can desire for the people a currency better adapted to meet all the circumstances of a business community than that which has been furnished by the banks of Massachusetts for the last quarter of a century. (James B. Congdon, cashier Merchants' Bank, New Bedford, in memorial to governor of Massachusetts, 1851.)

The anomalous feature of the case is that the well-secured bond-protected bank issues of New York are at a greater discount at this point than the apparently unsecured circulation of New England, including places hundreds of miles off, and inaccessible, in a measure, for compulsory redemption. * * *

We said that the Massachusetts currency was apparently unsecured. In reality their bank paper is well secured. The experience of the last fifteen years has demonstrated that the losses from bank issues in the State of New York are four or five times greater than in Massachusetts. The system of the latter is better than our own. (New York Courier and Enquirer, 1854.)

The State parts with these objects of her care and solicitude with many regrets, but with a just pride in their career, inspired by the belief that their capital has been highly instrumental in promoting the prosperity of the State, and that they have furnished as good a paper currency, based on individual credit, as any part of the country has ever enjoyed. (Massachusetts Banking Report, 1865.)

THE SUFFOLK SYSTEM THE BETTER.

When the soundness of this system is tested by a comparison with the national system of to-day the result more than justifies the assertion that the former was incomparably the better; for, when the conditions during the twenty years from 1840 to 1860 are compared with those of the past thirty years, all must admit that argument is futile and the conclusion inevitable.

Mark this, that while a tax of one-eighth of 1 per cent on all the notes in circulation would have paid all the notes of failed banks from 1840 to 1860, it would have taken a tax of one-fifth of 1 per cent on all notes out to pay the notes of the failed national banks.

Nor is this all. The Suffolk system greatly lowered the rates of interest and thereby advanced the welfare of labor and brought a larger return to the producers through New England.

It has been impossible for the banks of discount to find use for all their means in discounting good paper, and some, having the largest capital, have reduced the rate of interest, in a few instances, to 5, 4, and even 3 per cent. (Connecticut Bank Commissioners' Report, 1844.)

If the rate of 3 per cent was reached in 1844, what ought it to be to-day with our vastly increased capital in the banking business? But the fact is that we have the most expensive banking system in the world, which, if persisted in, may drive us from the coveted fields of the world's commerce.

The following table indicates the distribution of the New England banks, according to size, about 1840:

	$50,000 or less.		Over $50,000; less than $100,000.		$100,000.	
	No.	Amount.	No.	Amount.	No.	Amount.
Maine (January, 1841)	22	$1,099,000	6	$445,000	11	$1,100,000
New Hampshire (June, 1840)	2	100 000	3	185,000	16	1,600,000
Vermont (October, 1839)	6	280,000	8	562,770	2	200,000
Massachusetts (October, 1840)	.....	....	.....	....	39	3,900,000
Rhode Island (December, 1840)	15	601,480	14	1,006,510	6	600,000
Connecticut (March, 1840)	1	40,000	7	479,580	1	100,000
Total	[a] 46	2,120,480	38	2,678,860	75	7,500,000

	Over $100,000; less than $300,000.		$300,000 or over.		Total.	
	No.	Amount.	No.	Amount.	No.	Amount.
Maine (January, 1841)	6	$1,027,500	2	$700,000	47	$4,371,500
New Hampshire (June, 1840)	5	652,508	1	300,000	27	2,837,508
Vermont (October, 1839)	2	255,000	.....	....	18	1,297,770
Massachusetts (October, 1840)	42	7,740,000	34	22,110,000	115	33,750,000
Rhode Island (December, 1840)	14	2,218,950	13	5,548,275	62	9,975,215
Connecticut (March, 1840)	12	2,233,115	10	6,025,550	31	8,878,245
Total	81	14,147,073	60	34,683,825	300	61,110,238

[a] Of these 46 banks, 7 are of less than $40,000 capital, 3 of them being $25,000 or less.

The maximum limit to circulation was, in the early days of the New England banks, established by the State legislatures in the case of each individual bank and varied widely, not only from State to State but also among the different charters in the same State. The differences between charters granted in the same State had, however, for the most part, been done away with before 1840, and between 1840 and 1860 the relation between circulation and capital was fixed in the New England States as represented in the annexed table:

	Per cent of capital.
Massachusetts	125
Vermont after 1840	200
New Hampshire	[a] 100
Maine, to 1846:	
Banks with a capital of $50,000 or less	100
Banks with a capital of from $50,000 to $150,000	75
Banks with a capital of more than $150,000	66⅔
Maine, after 1846	[b] 50
Connecticut, before 1855	150
Connecticut, 1855–1858	125
Connecticut, after 1858	75
Rhode Island:	
Banks with capital of $50,000 or less	75
Banks with capital of $50,000 to $120,000	65
Banks with capital of $400,000 to $500,000	20
Rhode Island, after 1859	65

Actual circulation compared with circulation permitted.

1840.

State.	Number of banks.	Capital.	Actual circulation.	Circulation permitted.
Massachusetts	115	$33,750,000	$9,112,882	$42,187,000
Rhode Island	62	9,880,500	1,719,230	5,000,000
Connecticut	31	8,806,204	2,325,589	13,209,000
Maine	49	4,671,500	1,224,658	3,500,000
New Hampshire	27	2,837,508	1,088,750	2,837,000
Vermont	17	1,196,770	1,099,784	3,590,000
Total	301	61,142,482	16,570,893	70,323,000

[a] Less loans on pledge of the bank's stock.
[b] Plus specie held.

Actual circulation compared with circulation permitted—Continued.

1850.

State.	Number of banks.	Capital.	Actual circulation.	Circulation permitted.
Massachusetts	126	$36,925,050	$17,005,826	$46,156,000
Rhode Island	63	11,716,337	2,553,865	6,000,000
Connecticut	37	9,152,801	4,888,029	13,729,000
Maine	32	3,248,000	2,654,208	3,050,000
New Hampshire	22	2,203,950	1,751,096	2,203,000
Vermont	27	2,197,240	2,856,027	4,395,000
Total	307	65,443,378	31,709,051	75,533,000

1860.

State.	Number of banks.	Capital.	Actual circulation.	Circulation permitted.
Massachusetts	178	$66,482,050	$25,012,745	$83,102,000
Rhode Island	91	20,865,569	3,558,295	13,562,000
Connecticut	74	21,606,997	7,702,436	16,205 000
Maine	68	7,506,890	4,149,718	5,765,000
New Hampshire	51	4,981,000	3,332,010	4,931,000
Vermont	44	3,872,642	3,784,673	7,745,000
Total	506	125,315,148	47,539,877	131,310,000

Statement showing condition of banks in the six New England States for years 1840–1860, as near to January 1 in each year as may be.

Year.	Number of banks.	Capital.	Circulation.	Deposits.	Due to other banks. [a]	Loans and discounts.	Due from other banks.	Specie.	Notes of other banks.
1840	306	$62,212,311	$16,461,947	$7,943,127	$3,174,180	$80,832,718	$5,883,718	$3,270,838	$2,367,809
1841	299	60,805,718	17,406,407	10,783,948	4,908,263	81,584,545	7,810,599	4,357,311	2,963,410
1842	290	59,542,546	18,106,582	10,340,173	5,215,637	81,769,111	6,999,410	4,353,604	3,136,251
1843	288	58,532,793	14,827,256	19,131,070	4,017,875	76,257,474	5,692,143	3,872,914	2,677,467
1844	270	56,113,451	19,406,979	15,143,972	9,414,703	75,774,234	12,746,274	8,597,775	3,184,919
1845	267	54,548,453	23,362,491	17,532,915	5,956,697	83,802,157	9,408,723	5,789,888	3,376,875
1846	266	55,233,762	26,316,986	17,231,601	6,137,670	89,492,708	8,996,953	4,574,711	4,044,205
1847	267	56,220,224	26,742,517	14,625,398	6,343,520	88,996,063	9,289,696	4,275,200	3,800,790
1848	274	57,909,527	31,574,918	16,220,799	8,478,578	97,453,503	10,401,109	5,520,670	4,431,228
1849	283	59,664,973	25,374,539	12,725,743	5,036,392	92,849,374	6,733,125	4,161,519	3,261,422
1850	300	62,861,393	29,833,015	15,487,144	5,849,508	99,874,402	8,397,447	4,280,988	4,835,194
1851	307	65,521,828	31,793,891	27,207,508	7,502,065	107,815,760	9,528,449	4,614,856	5,213,262
1852	349	69,495,829	38,572,122	21,915,416	8,734,031	122,173,852	11,895,525	4,524,784	7,638,000
1853	363	80,192,703	44,378,844	23,876,166	10,341,742	138,793,766	12,337,931	6,098,444	7,119,166
1854	411	92,769,405	54,839,335	28,777,711	10,823,726	162,850,048	14,652,108	6,799,866	9,728,348
1855	445	103,354,035	49,468,005	39,423,910	9,110,943	168,931,215	14,894,105	6,349,431	7,338,808
1856	495	112,151,077	50,088,971	32,255,039	8,139,334	180,218,629	15,002,415	6,992,746	6,832,780
1857	510	115,621,933	54,946,690	25,118,876	7,455,964	192,347,654	14,523,141	7,383,641	7,528,899
1858	499	118,255,605	36,207,518	47,647,671	6,593,838	171,586,923	12,149,099	6,177,753	6,045,985
1859	499	120,185,431	41,745,911	43,312,232	10,296,322	181,049,755	16,743,496	13,848,201	6,548,981
1860	504	123,563,069	44,653,095	41,208,190	9,247,621	192,848,894	14,220,811	10,058,995	7,073,555

[a] Exclusive of New Hampshire.

THE BANKING SYSTEM OF CANADA.

It only now remains to call attention to one other instance of a true credit currency, and that is the banking system of Canada, where the law provides for a guaranty fund of 5 per cent and also makes the note a first lien upon the assets of the bank.

Those of our people who live along the Canadian border and can see our own system working to such great disadvantage as compared with that of Canada are compelled to wonder why we, too, do not adopt the natural tool of commerce rather than keep a relic of the war which some hold good—yes, the best—either because they have determined that they will not see or because, though they may see, they fear they shall not be able to convince others.

The currency of the Canadian banks rises and falls with the needs of that country from year to year, from season to season, from month to month, and from day to day.

Can any man say that our currency reflects in its amount the demands of business? Must not everyone who has given the matter even a superficial thought confess that it is much or little according to the speculation in bonds, causing inflation half the time and panics the other half?

From this array of facts it is submitted that every quality claimed for a credit currency has been demonstrated, proved, and substantiated.

A CREDIT CURRENCY IS SOUND.

It is sound; and we point to the fact in confirmation thereof that it is the currency of France, Germany, Scotland, Belgium, Holland, Austria, Japan, Canada, Australia, and was the currency of the first and second United States banks, the Bank of Indiana, the Bank of Ohio, the Bank of Iowa, all the banks of the State of Louisiana under the act of 1842, and all the banks of New England, 504 in number, from 1840 to 1860.

Nay, more, we here and now challenge anyone to cite a single instance in American history where a single word or term of opprobrium or derision was ever used in relation to any true credit currency. On the other hand, we assert that all the wild-cat, yellow-dog, blue-pup, and every other kind of dog money, to which allusion is constantly made, was issued under conditions entirely different from those imposed in this bill, and that a careful and thorough investigation will disclose the fact that practically all of the so-called "dog" money was put out under the guise of State notes or bond-secured money, the bonds being United States bonds or stocks, the bonds or stocks of the several States with the addition, now and then, of other securities, such as railroad bonds, as provided in the law of Wisconsin.

Let no man from this day forth, who cares for his reputation as a student of this question try to link any of the opprobrious terms, including the word "dog," with the credit currency of our own or any other country, because whenever and wherever a true credit currency has been issued, in accordance with the provisions of this bill, it has been as good as gold or the coin of the realm, or the government where issued.

CREDIT CURRENCY ADJUSTS ITSELF.

The assumption that a system of credit currency means only expansion and not contraction is completely refuted by the following statement:

Country.	Possible issue.	Actual issue.
France	$1.160,000,000	$929,000,000
Canada	94,000,000	83,000,000
Scotland	148,000,000	40,000,000
First United States Bank	10,000,000	5,000,000
Second United States Bank	35,000,000	23,000,000
Bank of Indiana	6,600,000	4,900,000
Bank of Iowa	2,096,000	1,400,000
New England Suffolk system	123,000,000	44,000,000
Canadian banks	65,000,000	54,000,000

From this comparison of the possible and the actual issues, in every instance, every fair-minded and reasoning man must conclude that a natural and perfect relation must exist between a true credit currency and the work it is called upon to perform.

LIFE OF A CREDIT NOTE.

The average life of a true credit note is in bold contrast with that of our present national-bank note.

	Days.
The note of the Scotch banking system remains out	18
The note of the Canadian banking system remains out	30
The note of the New England (Suffolk) banking system remains out	45
The note of the national-banking system remains out	730

Or more than two years, which is about the time the paper itself lasts, when it must be returned, of necessity, for renewal.

The frequent redemptions of the credit notes reflect their relations to business transactions, while the redemption of the national-bank notes reflects little more than the life of the paper upon which they are printed.

That a credit note is just as economic in its use as a deposit, which is received to be loaned out, no one will deny, making the nominal allowance for the cost of the note and its redemption.

CREDIT CURRENCY IS INEVITABLE.

Recalling these facts, then—

First. That owing to our constantly increasing population and constantly expanding business, provision must be made for a large annual increase.

Second. That this increase can not be silver in any form, for we shall not purchase another ounce of bullion, and that it would be unnecessarily expensive even if we could rely upon an adequate supply of gold.

Third. That our present bond-secured currency, while safe, is just as expensive as gold and bears no relation whatever to business needs, being a bond-speculation scheme pure and simple.

Fourth. That the true credit currency, protected as provided in this measure, being as good as gold itself, adapts itself always and under all circumstances to the ever-varying needs of the people, and is as economical as a sound credit can be in any form.

A single conclusion alone is left as the result of this searching and exhaustive examination of present conditions, and running back for more than two hundred years, and that is that we need and must and will have sooner or later credit currency protected by a proper reserve and redeemable on demand in gold coin.

That the proposed currency is safe beyond any peradventure, your committee feel confident. For the Report of the Comptroller shows that all the creditors of the national banks that have failed have received 78 per cent of the amount due them. Therefore only one-quarter of the amount due any note holder, who is a general creditor of the bank, would have to be paid out of the guaranty fund. But the records of the Comptroller's office show that a tax of one-fifth of 1 per cent upon all the notes of the national banks would have paid the notes of the failed banks in full. Therefore the 5 per cent guaranty fund, which would be called upon to pay only one-fourth of this amount, would last just one hundred years.

Year.	The number, capital stock, and national-bank notes outstanding (secured by bonds) of active national banks, by years, 1863-1901, inclusive. Number of banks.	Capital stock.	National-bank notes outstanding secured by bonds.	The number of insolvent national banks, their capital stock, and national-bank notes outstanding, by years, 1863-1901, inclusive. Number of failures.	Capital stock.	National-bank notes outstanding at date of failure secured by bonds.	Rate of tax on total national-bank notes each year sufficient to pay national-bank notes of failed banks of that year.	Number of insolvent national banks, the affairs of which have been finally closed, their capital stock, amount realized from assets, bonds (at par) held to secure circulation, and national-bank notes outstanding at date of failure, secured by bonds, by years, 1863-1901, inclusive. Number of banks.	Capital stock.	Amount realized from assets (dividends + offsets + loans paid after failure).	Par value of bonds held at date of failure.	Total value of assets and bonds.	National-bank notes outstanding secured by bonds.	Number of insolvent national banks, by years, whose circulating notes outstanding at date of failure were in excess of the amount realized from assets (eliminating bonds and premium), and percentage of such excess to circulation of active banks, by years. Number of banks.	Excess circulation over assets (bonds out).	Per cent of circulation, active banks.
1863	66	$7,188,393														
1864	508	86,782,802	$45,260,505													
1865	1,513	393,157,206	171,321,903	1	$50,000	$44,000	.025	1	$50,000	$89,472	$50,000	$139,472	$44,000			
1866	1,644	415,472,369	280,253,818	2	500,000	265,000	.094	2	500,000	336,876	300,000	636,876	265,000	1	$68,721	.025
1867	1,642	420,073,415	293,887,941	7	1,370,000	928,900	.31	7	1,370,000	2,724,831	1,051,700	3,776,531	928,900	3	141,006	.048
1868	1,643	420,634,511	295,769,489	3	210,000	141,800	.947	3	210,000	297,453	160,000	457,453	141,800	1	6,642	.002
1869	1,617	429,399,151	293,593,645	2	300,000	174,700	.059	2	300,000	519,133	207,000	726,133	174,700	1	25,167	.009
1870	1,615	430,399,301	291,798,640													
1871	1,767	458,255,696	315,519,117													
1872	1,916	479,629,174	333,495,027	6	1,806,100	1,388,393	.41	6	1,806,100	3,820,382	1,559,000	5,379,382	1,388,393	1	41,396	.012
1873	1,976	491,072,616	339,081,799	11	3,825,000	2,522,100	.74	11	3,825,000	6,833,474	2,834,500	9,667,974	2,522,100	2	99,894	.029
1874	2,004	493,765,121	333,225,298	3	250,000	230,000	.069	2	200,000	177,203	206,000	383,203	185,000	2	54,451	.016
1875	2,088	504,829,769	318,350,379	5	1,000,000	268,791	.085	5	1,000,000	1,323,854	300,000	1,623,854	268,791	1	37,704	.012
1876	2,089	499,802,232	291,544,020	9	965,000	428,318	.15	9	965,000	1,208,047	510,000	1,718,047	452,900	a 4	75,230	.026
1877	2,080	479,467,771	291,874,236	10	3,344,000	653,222	.22	10	3,344,000	4,684,748	862,000	5,546,748	653,222	a 1	20,206	.007
1878	2,053	466,147,436	301,888,092	14	2,612,500	1,323,275	.44	13	1,862,500	3,192,030	831,800	4,023,830	724,885	a 3	51,792	.017
1879	2,048	454,067,365	313,786,342	8	1,230,000	490,720	.16	8	1,230,000	1,408,549	640,000	2,048,549	490,720	1	5,406	.002
1880	2,090	457,553,985	317,350,036	3	700,000	449,500	.14	3	700,000	897,557	500,000	1,397,557	449,500			
1881	2,132	463,821,985	320,200,069													
1882	2,269	483,104,213	314,721,215	3	1,561,300	999,400	.32	3	1,561,300	4,395,018	1,111,000	5,506,018	999,400			

1883	2,501	509,699,787	310,517,857	2	250,000	106,000	.034	2	250,000	475,169	120,000	595,169	106,000	......	....	....
1884	2,664	524,271,345	289,775,123	11	1,285,000	699,220	.28	11	1,285,000	6,455,066	793,500	7,248,566	699 220	a 1	46,747	.016
1885	2,714	527,524,410	268,869,597	4	600,000	221,450	.08	4	600,000	3,338,881	362,500	3,701,381	221,450	......	....	....
1886	2,852	548,240,730	228,662,610	8	650,000	328,385	.14	8	650,000	1,123,827	415,000	1,538,827	328,385	1	32,525	.014
1887	3,049	578,462,765	167,283,343	8	1,550,000	242,470	.14	7	550,000	750,303	170,000	920,303	152,450	1	10,426	.006
1888	3,140	592,621,656	151,702,809	8	1,900,000	262,080	.17	8	1,900,000	4,054,028	292,500	4,347,528	262,080	......	....	....
1889	3,290	612,584,095	128,450,600	2	250,000	56,250	.044	2	250,000	679,539	62,500	742,039	56,250	......	....	....
1890	3,540	650,447,235	122,928,084	9	750,000	165,990	.14	9	750,000	1,075,815	187,500	1,263,315	165,990	......	....	....
1891	3,677	677,426,870	131,323,301	a 25	3,622,000	654,095	.49	19	1,847,000	2,114,588	534,500	2,649,088	472,790	......	....	....
1892	3,773	686,573,015	143,423,298	17	2,450,000	554,070	.39	16	2,400,000	10,748,062	599,250	11,347,312	542,820	......	....	....
1893	3,781	678,540,338	182,959,725	b 65	10,935,000	1,849,520	1.01	40	5,760,000	10,498,052	1,171,250	11,669,302	1,041,950	1	17,147	.009
1894	3,755	668,861,847	172,331,978	21	2,770,000	616,860	.36	13	1,525,000	1,583,339	368,800	1,952,139	329,790	......	....	....
1895	3,712	657,135,498	182,481,610	a c 36	5,235,020	934,930	.51	22	2,235,020	2,561,474	528,750	3,090,224	477,030	1	3,942	.002
1896	3,676	648,540,325	209,944,019	27	3,805,000	785,695	.37	13	870,000	890,640	218,000	1,108,640	194,650	......	....	....
1897	3,610	631,488,095	198,920,670	a 38	5,851,500	1,170,138	.59	21	2,600,000	4,277,276	575,500	4,852,776	505,280	2	17,833	.009
1898	3,585	621,517,895	194,483,765	a 7	1,200,000	261,700	.13	4	600,000	769,384	237,500	1,006,884	197,360	a 1	7,130	.004
1899	3,595	605,772,970	200,345,567	12	850,000	212,340	.10	4	350,000	303,063	125,000	428,063	112,500	1	17,650	.009
1900	3,871	630,299,030	283,948,631	6	1,800,000	162,000	.058	1	200,000	2,248,423	50,000	2,298,423	45,000	......	....	....
1901	4,221	655,341,880	323,863,597	a 11	1,760,000	1,132,950	.35	1	50,000	58,376	50,000	108,376	50,000	......	....	....
Total	......	....	9,355,137,754	404	67,237,420	20,723,162	....	290	43,595,920	85,914,932	17,985,050	103,899,982	15,650,206	30	781,015	.008
Annual average circulation outstanding	......	....	239,875,327	......	....	d 531,363	e .22	......	....	....	....	....	....	......	f 20,026	....

a One bank restored to solvency.
b Eleven banks restored to solvency.
c Two banks restored to voluntary liquidation.
d Annual average amount failed national-bank notes outstanding.
e Annual average rate of tax.
f Average, thirty-nine years.

RESERVES OF BANKS AND TRUST COMPANIES UNDER THE LAWS OF THE STATES.

RESERVES OF BANKS AND TRUST COMPANIES REQUIRED BY THE LAWS OF THE DIFFERENT STATES.

(Down to January 1, 1908.)

Alabama	No reserve requirement.
Alaska	No reserve requirement.
Arizona	No reserve requirement.
Arkansas	No reserve requirement.
California	*20 per cent* (200,000 population or over), *15 per cent* (less than 200,000). These percentages of cash reserve required on demand or immediate liabilities and time certificates of deposit. Cash includes specie, national-bank notes, legal-tender notes, all paper obligations of the United States circulating as money, exchanges for clearing-house associations. One-half of cash reserve may consist of moneys on deposit subject to call with any solvent bank or trust company. Reserve requirement applies to every banking corporation except savings banks and every person and partnership doing a banking business.
Colorado	No reserve requirement.
Connecticut	*15 per cent* of aggregate deposits. Applies to banks and trust companies. Not less than four-fifths (gold and silver coin, demand obligations of United States national bank currency) must be held in banking office of banks or trust company. Remaining one-fifth may be balances subject to demand draft with reserve agents, approved by bank commissioners which are members of clearing-house associations of New York, Boston, Philadelphia, Chicago, or Albany; or State banks or trust companies in New Haven or Hartford; or railroad bonds which are legal investments for savings banks.
Delaware	No reserve requirement.
District of Columbia	Stock savings banks subject to national-bank act as far as applicable. No reserve requirement for safe deposit, trust, loan, and mortgage companies.
Florida	*20 per cent* of aggregate amount of deposits in lawful money. Applies to banking companies incorporated to carry on business of banking. Three-fifths may consist of balances payable on demand due from banks or bankers in other cities with which current account is kept; or bonds of United States, State of Florida, counties and cities of Florida, approved by comptroller of State.
Georgia	*25 per cent.* No bank or corporation doing a banking business allowed to reduce cash in hand, including amount due by banks and bankers and the market value of all stocks and bonds actually owned and held, below 25 per cent of demand deposits. Trust companies can not receive deposits subject to check or discount commercial paper until

laws regulating banks are complied with (act of 1898). State banks issuing circulating notes (act of 1897) must keep in vaults (in addition to reserve fund now required by law), in legal-tender notes or specie, 25 per cent of its outstanding notes.

Idaho ---------------------*15 per cent* of demand liabilities to be kept in available funds. One-half may consist of balances due from good, solvent banks. Applies to State banks, private banks, and foreign banks receiving deposits in State. Banking departments of trust companies subject to reserve regulations. Savings banks doing combined savings and commercial business must keep separate books for each kind of business and commercial business subject to reserve requirements.

Illinois-------------------No reserve requirement.

Indiana -------------------No reserve requirement as to State banks or trust companies. Trustees of savings banks may keep in reserve not exceeding 20 per cent of the total amount of deposits without investment, or deposit same on call, with or without interest, in any bank organized under laws of Indiana or national bank.

Iowa----------------------*15 per cent* (3,000 or more), *10 per cent* (less than 3,000) of total deposits of State banks. Three-fourths of reserve may be kept on deposit subject to call with other banks organized under State or national laws.

20 per cent and 8 per cent (3,000 or over), *15 per cent and 8 per cent* (under 3,000), *8 per cent.* Applies to savings banks. Savings banks doing commercial business must keep cash reserve 20 per cent of commercial deposits and 8 per cent of savings deposits in towns where population is 3,000 or more; where less than 3,000, 15 per cent and 8 per cent, respectively. Savings banks doing exclusive savings-bank business, 8 per cent. Three fourths of above reserves may be on deposit subject to call with other banks organized under State or national laws. No corporation can do banking business unless subject to banking laws, except loan and trust companies may receive time deposits and issue drafts on their depositaries, but are subject to examination and control by auditor of state the same as State and savings banks.

Kansas--------------------*25 per cent* (over 5,000), *20 per cent* (less than 5,000), *25 per cent* (reserve banks). Banks must have these percentages of entire deposits in available funds on hand. One-half of reserve may consist of balances due from good solvent banks located at commercial centers and at such other points as bank commissioner may approve; one-half must be actual cash. Cash items not considered as part of reserve. Bank commissioner may refuse to consider as part of reserve balances due any bank from any other bank which shall refuse or neglect to furnish him with required information.

10 per cent. Savings banks or savings associations which do not transact general banking business must keep on hand at all times in actual cash 10 per cent of deposits and must keep a like sum invested in certified bonds.

Kentucky	*25 per cent* (over 50,000), *15 per cent* (50,000 or less), *10 per cent* (savings deposits). Incorporated banks must keep on hand these percentages of total deposits. One-third must be money; balance, funds payable on demand deposited in other banks. Provided no bank required to keep on hand more than 10 per cent of what are known as savings deposits, i. e., deposits on which the depositor has not the right to check, except upon giving thirty days' notice of his purpose to withdraw same. Trust companies can not engage in banking business. Combined banks and trust companies can be organized in counties having population less than 100,000. Laws governing banks apply to banking business of trust companies.
Louisiana	*25 per cent.* Banks, banking associations, corporations or companies must have on hand in lawful money and cash due from other banks 25 per cent of demand deposits; 8 per cent must be kept on premises in cash. Same requirement for banks organized to do a savings, safe deposit, and trust banking business. But deposits made in a savings bank or savings department of a bank also doing a general banking and trust banking business, which are made on condition that they may not be withdrawn except on notice, shall not be considered demand deposits.
Maine	*15 per cent.* Banks and trust companies must have on hand in lawful money 15 per cent of aggregate total deposits subject to withdrawal on demand or within ten days. Two-thirds may consist of balances payable on demand due from any national bank and one-third of such 15 per cent may consist of lawful money and bonds of United States or of Maine, the absolute property of the corporation.
Maryland	No reserve requirement.
Massachusetts	*15 per cent.* Banks shall keep in bank as reserve 15 per cent of liability for circulation or deposits. Lawful money of United States or specie specially deposited by a bank in Boston in the bank of deposit of the Boston Clearing House, or balances payable on demand due from other banks to banks out of Boston or in South Boston and in the parts of Boston formerly Brighton, Charlestown, Dorchester, Roxbury, and West Roxbury, which may be applied to the redemption of their bills, shall be a part of the reserve.
	15 per cent. Trust companies must maintain 15 per cent of deposits subject to withdrawal on demand or within ten days in lawful money of United States; or one-third may consist of bonds of United States or Massachusetts, and two-thirds may consist of balances payable on demand due from a national bank in Massachusetts or New York City, or balances payable on demand or within ten days from any domestic trust company doing business in Massachusetts, approved by board of bank commissioners, and which maintains a 15 per cent reserve in accordance with certain specified requirements.
Michigan	*20 per cent* (over 100,000), *15 per cent* (100,000 or less). Commercial banks must keep on hand these percentages of total deposits. One-half must be in lawful money; balance may be in

15 per cent. Savings banks must keep on hand 15 per cent of total deposits; one-third in lawful money in its own vaults; balance on deposit payable on demand with banks, national or State, in cities approved by the commissioners as reserve cities; or invested in United States bonds. Combined commercial and savings banks must keep the 15 per cent reserve required for savings deposits separate and distinct from the reserve required for commercial deposits.

Minnesota ---------- *20 per cent.* Banks of discount and deposit must keep reserve of one-fifth of all matured or demand liabilities; one-half cash, including legal tender and national bank notes, remainder balances due from solvent banks. No reserve requirement as to savings banks or trust companies, but trust companies can not engage in banking business beyond trust powers expressly granted.

Mississippi ---------- No reserve requirement.

Missouri ---------- *15 per cent* of aggregate amount of demand deposits required to be kept as reserve by every banking corporation or individual banker; also by trust companies. Must consist of cash on hand and cash due from other banks (and in the case of trust companies, cash due from banks and other trust companies); proportion not specified.

Montana ---------- *15 per cent, 25 per cent.* Banks must keep 15 per cent of total deposits as reserve. Such portion as board of directors may determine may be on deposit in banks in cities of the first and second class approved by State examiner as reserve banks, which banks must keep 25 per cent in lawful money or on deposit in banks approved as reserve banks by State examiner.

Nebraska ---------- *15 per cent* (25,000 or less), *20 per cent* (over 25,000), *5 per cent* (savings banks). Every corporation, partnership, firm, or individual transacting banking business must keep on hand in available funds 15 per cent of aggregate amount of deposits; two-thirds must be cash in vaults of bank. In cities of more than 25,000, reserve shall be 20 per cent. Savings banks shall have on hand at all times in available funds as a reserve 5 per cent of deposits. Available funds are cash on hand and balances due from other solvent banks. Cash includes lawful money of the United States and exchange for any clearing-house association.

Nevada ---------- No reserve requirement.

New Hampshire ---------- No reserve requirement.

New Jersey ---------- *15 per cent.* Banks must have on hand in available funds 15 per cent of immediate liabilities. Three-fifths may consist of balances due from solvent banks and trust companies; two-fifths must be cash on hand. Same requirement as to trust companies receiving deposits subject to check or payable on demand, except that only one-fifth must be cash on hand and four-fifths balances due from good solvent banks and trust companies. Immediate liabilities defined to be deposits payable on demand and all items in the nature of claims payable on demand.

Savings banks may keep 10 per cent of deposits uninvested as an available fund.

New Mexico ---------- No reserve requirement.

New York ---------- *15 per cent* (800,000 or over), *10 per cent* (under 800,000). Banks and individual bankers must have on hand in lawful money these percentages of aggregate amount of deposits. One-half may

consist of moneys on deposit, subject to call, with any bank or trust company in the State having capital of at least $200,000 and approved by the superintendent of banks as reserve depository. Trust companies in cities over 800,000 must have at least 15 per cent of aggregate deposits on hand. Whole reserve may, and at least one-third must, consist either of lawful money of United States, gold or silver certificates, or national-bank notes. One-third may consist of bonds of United States, bonds of New York State, and bonds of cities of the first or second class in New York, computed at their par value, which must be the absolute property of the corporation exclusive of all other investments. Balance of reserve over and above the part consisting of lawful money, gold and silver certificates, and national-bank notes, and the part consisting of bonds, must consist of moneys on deposit subject to call in any bank or trust company in the State with capital at least $200,000 or capital and surplus of $300,000 and approved by superintendent of banks. Trust companies elsewhere must have reserve of at least 10 per cent aggregate deposits. Whole reserve may, and at least 30 per cent must, consist either of lawful money of the United States, gold or silver certificates, or national-bank notes; 30 per cent may consist of bonds of United States, New York State, and of cities of first or second class within State, computed at par value and the absolute property of corporation exclusive of all other investments; balance of reserve over and above parts consisting of lawful money and of bonds must consist of deposits in banks or trust companies as above. Savings banks may keep available fund not exceeding 10 per cent of total deposits on hand or on deposit in specified depositaries.

North Carolina............*15 per cent, 5 per cent.* Every bank must have on hand reserve in available funds 15 per cent of aggregate deposits. Two-fifths must be cash in vaults of bank. Savings banks must keep reserve of 5 per cent on hand. Available funds consist of cash on hand and balances due from other solvent banks. Cash includes lawful money United States and exchange for any clearing-house association.

North Dakota............*20 per cent.* Banks must have on hand in available funds an amount which, after deducting therefrom amount due to other banks, shall equal 20 per cent of total deposits. Three-fifths of reserve may consist of balances due from good solvent State or national banks or trust companies, which carry sufficient reserve to entitle them to act as depository banks and are located in such commercial centers as will facilitate the purpose of banking exchanges, and which depository banks are approved by State banking board; remaining two-fifths must be actual cash on hand. Cash items shall not be included in computing reserve. Banks prohibited from carrying as cash or cash items any paper or other matter except legitimate bank exchange, which will be cleared on same or next succeeding business day. No specific reserve for savings banks or trust companies, but "banking business" prohibited without complying with banking laws.

Ohio ---------------------- *20 per cent, 15 per cent.* Each banking company shall at all times have on hand lawful money of the United States to at least 20 per cent of its deposits (no provision apparently for deposit of part of this in bank; this is an old banking law). Safe-deposit and trust companies must have on hand 15 per cent of deposits, payable on demand or within ten days. One-third of such reserve may be clearing-house certificates for specie or lawful money specially deposited in the vault of such safe-deposit company or in United States subtreasuries for the purpose of any clearing-house association of which such company may be a member. One other third of reserve shall consist of bonds of the United States or of Ohio, the absolute property of said company. The remaining third of said reserve shall be lawful money of the United States.

Oklahoma ---------------- *20 per cent* (less than 2,500), *25 per cent* (over 2,500), *25 per cent* (reserve banks). Every bank doing business under laws of Oklahoma must have on hand in available funds 20 per cent of entire deposits where population less than and 25 per cent where over 2,500. Two-thirds of reserve may be balances due from good, solvent banks, selected from time to time with the approval of the bank commissioner. One-third of reserve must be actual cash. Bank made reserve depository for any other bank must have 25 per cent reserve. Bank commissioner may refuse to consider as part of reserve balances due from banks which refuse to furnish him required information.

10 per cent. Savings banks which do not transact general banking business required to keep on hand 10 per cent actual cash and 10 per cent invested in specified bonds.

Oregon ------------------- *25 per cent, 10 per cent* (50,000 or over); *15 per cent, 10 per cent* (under 50,000). Reserve required of 15 per cent of demand liabilities and 10 per cent of time deposits where population less than 50,000; and where it exceeds 50,000, 25 per cent and 10 per cent, respectively. The reserve is required to be in actual cash or balances due from good solvent banks to be approved by the bank examiner. At least one-third must be actual cash on hand. Applies to all doing a banking business.

Pennsylvania ------------ *15 per cent.* Banks, banking companies, savings institutions, trust companies receiving deposits subject to check or payable on demand, must have reserve on hand of 15 per cent of the aggregate amount of immediate demand liability. Whole reserve may, and at least one-third must, consist of either lawful money of United States, gold or silver certificates, national-bank notes, or clearing-house certificates, representing specie or lawful money specially deposited for the purpose of any clearing-house association, held and owned by any such corporation as a member of a clearing-house association; one-third or any part thereof may consist of bonds of United States, Pennsylvania, cities, counties, or boroughs of Pennsylvania, bonds that are legal investments for savings banks in Pennsylvania, computed at their par value, absolute property of corporation. Balance of reserve over and above part consisting of lawful money, etc., and part consisting of bonds, may consist of

moneys on deposit, subject to call, in any bank or trust company in Pennsylvania approved by bank commissioner, or in any bank or trust company in any other State located in a reserve city designated by Congress, approved by bank commissioner.

7½ per cent. Banks and other corporations receiving deposits payable at future time must have on hand reserve at least 7½ per cent of all time deposits, kept as specified by law.

Rhode Island .... No reserve requirement.

South Carolina .... No reserve requirement.

South Dakota .... *20 per cent.* Banking corporations must have on hand in available funds an amount which, after deducting therefrom the amount due to other banks, shall equal 20 per cent of total deposits. Three-fifths may be balances due from good solvent State or national banks or trust companies which carry sufficient reserve to entitle them to act as such depository banks, and are located in such commercial centers as will facilitate the purposes of banking exchanges; depository banks to be approved by State banking board. Two-fifths must be actual cash on hand. Cash items not included in computing reserves. Carrying as cash or cash items any paper or other matter except legitimate banking exchange, which will be cleared on same or next succeeding business day prohibited. Banking business prohibited except in compliance with banking law.

Tennessee .... No reserve requirement.

Texas .... *25 per cent.* Banking corporations must have cash on hand and due from other banks 25 per cent of aggregate demand deposits; 10 per cent must be actual cash in bank. Reserve fund may be kept on hand or on deposit, payable on demand, in any bank or banking association of Texas, or national bank approved by superintendent of banking, and having paid up capital of $50,000 or more; but deposits in any one bank or trust company not to exceed 20 per cent of total deposits, capital, and surplus of bank. Law covers banks authorized, in addition, to do trust company business.

15 per cent. Savings banks must keep available cash fund not less than 15 per cent of whole amount of assets. Same or any part may be kept on hand or on deposit, payable on demand, in any bank or banking association of Texas or national bank approved by superintendent, with restrictions, as above.

Utah .... *20 per cent* (25,000 or more), *15 per cent* (under 25,000), *10 per cent* (savings deposits). Commercial or savings banks or banks having departments for both classes of business (private banks subject to requirement) must have on hand as reserve in available funds 15 per cent of aggregate of commercial deposits and immediate liabilities, which reserve shall be 20 per cent where banks are located in cities having population of 25,000 or more, and an amount equal to 10 per cent of savings deposits and immediate liabilities. Available funds consist of cash on hand and balances due the corporation or private banker from good, solvent banks. Immediate liabilities include all claims against the bank payable on demand.

Vermont	No reserve requirement as to State banks or trust companies.
Virginia	No reserve requirement as to banks or trust companies.
Washington	*20 per cent.* All corporations doing business under general banking law must have on hand in available funds 20 per cent of demand liabilities. Such sum may consist of balances due from good, solvent banks located at commercial centers and at such other points as State examiner may approve, and actual cash or checks on solvent banks located in same city. Act covers every corporation, domestic or foreign (except national banks and foreign banks not authorized to receive deposits), transacting banking business in State.
West Virginia	*15 per cent.* Banks, cooperative banking associations, and trust companies engaged in general banking business maintain reserve on hand in lawful money 15 per cent of aggregate deposits, subject to withdrawal on demand. In lieu of lawful money, three-fifths may consist of balances payable on demand due from any national or State bank doing business in West Virginia or any solvent bank outside of State approved by supervisor.
Wisconsin	*15 per cent, 25 per cent.* Banks must keep on hand as reserve 15 per cent of total deposits. Such portion as board of directors may determine may be on deposit in banks approved by commissioner of banking as reserve banks; such reserve banks must keep on hand 25 per cent of total deposits in lawful money or on deposit in banks subject to approval of commissioner of banking as reserve banks. Cash items not considered part of reserve of any bank.
	5 per cent. Mutual savings banks must keep on hand or on deposit in banks approved by commissioner as reserve banks at least 5 per cent of total deposits.
Wyoming	*25 per cent.* Loan and trust companies shall maintain reserve fund of at least 25 per cent of liabilities to depositors, which reserve shall be represented by cash in vaults or on deposit subject to call with national or State banks approved by State examiner as reserve banks.
	10 per cent. Savings banks must hold in their own keeping or on deposit subject to call with some national bank or other bank organized under general law, 10 per cent of savings deposits.
	(While provision is made for the organization of corporations for the purpose of carrying on general banking, savings bank and loan and trust business, specific requirements as to reserve are apparently made as to last two specific organizations only.)

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